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NATIONAL AFFAIRS, POLICY

JINGJI GUANLI on Forms, Risks in Leasing
HK2806042788 Beijing JINGJI GUANLI in Chinese
No 4, 1988 pp 26-34

[Article by Yang Zhongchuan [2799 0112 1557] edited by An Luming [1344 6424 2494]: "A Discourse on Critical Point in risks in Leasing Operations and the Option of Lease Formula"]

Lease operation is a form of operation in contracting of a risky type which is based on the principle of separation of ownership right and management right, employs the lease form and legal measures, introduces the use of competitive mechanism and enforces the system of mortgaging or pledging of assets. It has operational risks and carries compensation for the risks though not necessarily in corresponding proportions. Due to the different methods in assessing rent and the different methods in its allocation or distribution and also to distribution determining the risks, in leasing operation a great disparity is frequently occasioned between the operational risks and the compensation for the risks all of which have an important bearing on the leasing policy of the lessee, the guarantor, and the lessor. Studying the problem of the critical point of risks in leasing operations will help in upgrading the scientific character of leasing policies, and in overcoming blindness in procedure, and also contribute to suitably determining the form of leasing operations, the risks in operation and the compensation for the risks involved.

I. First About the Form of Lease

Leasing operations in industrial enterprises all take profits as the principal target, with the lessee bearing the economic burden in the form of payment of rent. Rent determines distribution while distribution determines the risks. At present, the scope of the rent on leased enterprises differs and the method of distribution also varies. There are four principal forms as follows:

First, rent is paid out from the profits; any deficit must be wholly made up while any excess may be retained after tax. In other words, rent is based on the profits guaranteed to be realized and is paid by the lessee to the lessor; in turn it reverts to the enterprise, is taken as the enterprise's profits and the enterprise pays on it the income tax and the levy for the energy and communications funds. In the event that in a given year the realized profits fall below the amount of the rent, then first the lessee makes compensation from his own private property and if insufficient the guarantor will make it up from the pledged properties. If the realized profits exceed the amount of rent, then after payment of the income tax and of the levy for the energy and communications funds, the whole of the balance belongs to the lessee.

Second, rent is paid out from the profits; any deficit must be wholly made up while any excess will be divided after tax. In other words, if in a given year the amount of realized profits exceeds the rent, the excess portion, after payment of the income tax and of the levy for the energy and communications funds, will be apportioned on a proportional basis. In general, the apportionment may be on one of the following basis: 2-8, 3-7 or 4-6, with the enterprise getting the larger portion as the enterprise's after-tax profit-retention of the excess portion of profit, and the lessee getting the smaller portion, for use as payment of salaries, wages and bonuses and as compensation for risks.

Third, rent is paid out from the enterprise's portion of income from the proportionate apportionment of the base figure profits after payment of the income tax and the levy for the energy and communications funds and is not paid from the income portion of the lessee. If in a given year, the enterprise's income portion from the realized profits after tax is smaller than the rental portion, compensation will be made by the lessee and the guarantor from their private properties; if higher than the rental portion, then the excess belongs to the lessee's income. The lessee makes compensation only on the basis of the rental and does not bear any economic responsibility on the basis of the base figure profits.

Fourth, the enterprise's income from the proportionate division of the base figure profits after allowing for payment of the income tax and the levy for the energy and communications funds is treated as the enterprise's profit-retention; the lessee's portion of the income provides the rental and the rent is paid from the lessee's income portion. If in a given year, the lessee's income derived from the proportionate division of the realized profits is lower than the rental portion, then the lessee and the guarantor will make compensation from their private properties; if higher than the rental portion, then the excess belongs to the lessee's income. In the event the realized profits exceed the portion of the base figure profits, then after payment of the income tax and the levy for the energy and communications funds, apportionment will be made according to the original ratios for the enterprise's profit-retention, the energy and communications funds, rental and the lessee's income.

II. Method of Computing the Critical Point of Risks in Leasing Operation

The lessee's income, embracing salaries, wages, bonuses, compensation for risks and guarantor's pledges against risks, has no proportionate relationship with the income of the staff members and workers of the leased enterprise. At times, it can be so much as 300 percent of the average income earnings of the staff members and workers and at other times it can be lower than the average income of the staff members and workers and so much so that private properties must be used as pledges or

compensation. Therefore, the fixed salaries, wages and bonuses payable by the lessee should be incorporated into the realm of risks and into the critical point of risks in computing rent.

Regarding the method of computing the critical point of risk, there is no offhand or existing formula for reference. Meeting the actual demands of the lessee, the

guarantor, and the lessor and based on the tax rates in application of the 8-grade accumulation tax and the lessee's proportionate rate of the levy for the energy and communications funds, an estimate has been made of the lessee's coefficients of income from excess profits when rent is paid out from the profits, as shown in the following:

Table 1

Grades of taxable divisional basis	Applied tax rate (percent)	Coefficients of lessee's income in after-tax whole retention of excess profits when rent is paid from profits	Coefficients of lessee's income in after-tax proportionate distribution of excess profit when rent is paid from profits		
			2-8	3-7	4-6
above 10,000 yuan and up to 25,000 yuan	35	0.5525*	0.1105	0.16575	0.2210
above 25,000 yuan and up to 50,000 yuan	42	0.4930	0.0986	0.1479	0.1972
above 50,000 yuan and up to 100,000 yuan	48	0.4420	0.0884	0.1326	0.1768
above 100,000 yuan and up to 200,000 yuan	53	0.3995	0.0799	0.11985	0.1598
above 200,000 yuan	55	0.3825	0.0765	0.11475	0.1530

* 0.5525 equals $1 - (0.35 + (1 - 0.35) \times 0.15)$

The coefficients of lessee's income in whole retention of after-tax excess profits when rent is paid from profits are applicable to lessees whose income from the proportionate apportionment of the base figure profits after making allowances for payment of the income tax and levy for the energy and communications funds is not subject to payment of the rent; while the coefficients of the lessee's income in after-tax proportionate distribution of the excess profits when rent is paid from the profits are applicable to lessees whose income from the proportionate division of the after-tax base figure profits is subject to payment of the rent. Hence, the coefficients listed in Table 1 suit the requirements for computing the critical point for risks under various circumstances. This is explained below:

1) In the case of rent being paid out from profits, any deficit to be fully made up, and any after-tax excess profit to wholly belong to the lessee's income, the formula for computing the critical point of risks is like formula (A) below:

$$\text{Critical point of risks equals} = \text{rent} + \frac{\text{lessee's annual normal income}}{\text{coefficients of lessee's income from excess profits}}$$

Example 1: Assuming the rent of a certain leased enterprise is 60,000 yuan and the known tax rate on the excess profits is 48 percent and the coefficient of the lessee's income is 0.4420, and assuming that the lessee's annual normal income (comprising salaries, wages and bonuses;

same below), then insertions into formula A will be as follows:

$$\text{Critical point of risks} = 60,000 + \frac{1768}{0.4420} = 64,000 \text{ yuan}$$

If in a given year the leased enterprise's realized profits amount to the critical point for risk, then the lessee's normal income can be ensured and there will be no need for it to make up the rent, or to reduce its income, although the income likewise cannot be increased. If the lessee's coefficient is not used, direct computation can also be made in which case for formula (Formula B) for the critical point of risk is as follows:

$$\text{Critical point of risk} = \text{rent} + \frac{\text{lessee's annual normal income} + \text{excess profit amount} - \text{income tax} - \text{energy \& communications fund}}{\text{excess profit amount}}$$

As for the excess profit amount in the formula, any figure may be selected from the list of taxable amounts with the corresponding tax rate on excess profits for computation, but the highest amount of taxable amounts to which the tax rate is applicable should not be exceeded, otherwise there will be two applicable tax rates. For example, the rent of a certain enterprise is 60,000 yuan and for the same applicable tax rate the highest taxable amount is

100,000 yuan. With 1 yuan to 40,000 yuan, any figure may be selected for computation; and is the rent is 120,000 yuan and the highest taxable amount is 200,000 yuan, then within 1 yuan to 80,000 yuan, any figure may be selected for computation, and so on. Generally speaking, the figure "1" is the best selection, such as 1 yuan, 100 yuan, 10,000 yuan and so forth. Now, let us take the excess profit amount of 10,000 yuan and make the computation according to Example 1: The known tax rate is 48 percent, the income tax on 10,000 yuan is 4,800 yuan, the levy for energy and communications fund is 780 yuan and the insertion into Formula B is as follows:

$$\text{critical point of risk} = \frac{1768}{10000} \times 60000 \text{ yuan} + \frac{10000 - 4800 - 780}{10000} = 64000 \text{ yuan}$$

2) In the case of rent being paid out from profits, the formula for the critical point of risk in the proportionate apportionment of the excess profit after tax if Formula C, as follows:

$$\text{critical point of risk} = \frac{\text{rent} + \frac{\text{lessee's annual normal income}}{\text{coefficient of lessee's income from proportionate apportionment of after-tax excess profit}}}{1}$$

Example 2: Assuming that the rent of a certain leased enterprise is 120,000 yuan and that apportionment of the excess profit after payment of the income tax and levy for the energy and communications fund is on a 3-7 basis, that is, 70 percent being the enterprise's profit-retention of the enterprise's excess profit and 30 percent being the actual income of the lessee. The know applicable tax rate on the excess profit is 53 percent and the coefficient of the lessee's income from the proportionate apportionment of the after-tax excess profit is 0.11985. If the lessee's annual normal income is 1,917.60 yuan, then insertions into Formula C will be as follows:

$$\text{critical point of risk} = 120,000 + \frac{1,917.60}{0.11985} = 136,000 \text{ yuan}$$

Without using the coefficient of the lessee's income from the proportionate apportionment of the after-tax excess profit, a direct computation of the critical point of risk may follow Formula D as follows:

$$\text{critical point of risk} = \frac{\text{rent} + \frac{\text{lessee's annual normal income} \times (\text{excess profit} - \text{income tax} - \text{energy and communications fund}) \times \text{lessee's after-tax proportionate apportionment rate}}{\text{excess profit amount}}}{1}$$

As for the lessee's after-tax proportionate apportionment rate, it is that after payment of the income tax from the excess profit amount and of the levy for the energy and communications fund has been made, if the apportionment in practice is on a 2-8 basis, then the lessee's after-tax apportionment rate is 20 percent, if on a 3-7 basis, then the lessee's after-tax proportionate rate is 30 percent and if on a 4-6 basis, then the lessee's after-tax proportionate rate is 40 percent. If we select the excess profit amount as 10,000 yuan, use Example 2 in computation and the known applicable tax rate on the excess profit is 53 percent, income tax is 5,300 yuan, levy for the energy and communications fund is 705 yuan and the lessee's proportionate apportionment rate is 30 percent, then inserting the figures into Formula D will produce the following:

$$\text{critical point of risk} = 120,000 + \frac{1,917.60}{\frac{(10,000 - 5,300 - 705) \times 30\%}{10,000}} = 136,000 \text{ yuan}$$

3) In the case of the proportionate apportionment of the base figure profit after allowances for payment of the income tax and the levy for the energy and communications funds, the income portion of the enterprise comprises the rent and the rent is not paid out from the lessee's income, then computation of the critical point of risk follows Formula E as follows:

$$\text{critical point of risk} = \frac{\text{rent} - \text{rapid deduction amount for progressive tax} \times (1 - 15\%) + \text{lessee's annual normal income}}{\text{coefficient of lessee's income from proportionate apportionment of after-tax base figure profit}}$$

Example 3: Let us assume the following: the base figure profit of a certain leased enterprise is 90,000 yuan, the know applicable tax rate is 48 percent, and the extemporaneous or rapid deduction amount for the progressive tax is 5,830 yuan. Also, assuming that the enterprise's profit retention after payment of the income tax and the levy for the energy and communications funds is 44,735.50 yuan. If apportionment is at the rate of 3-7, then 70 percent, or 31,314.85 yuan will be the rent and 30 percent, or 13,420.65 will belong to the lessee's income; the coefficient of the lessee's income from the proportionate apportionment of the after-tax base figure profit is 0.4420 and if the lessee's normal income is 1,928.65 yuan, then insertion of the figures into Formula E will produce the following:

$$\text{critical point of risk} = \frac{31,314.85 - 5,830 \times (1 - 15\%) + 1,928.65}{0.4420} = 64,000 \text{ yuan}$$

Without using the coefficient, the following Formula F may be used to directly compute the critical point of risk:

critical point of risk =

$$\frac{\text{base figure profit x rent - rapid deduction amount for progressive tax x (1-15 \%)} + \text{lessee's annual normal income}}{\text{enterprise's after-tax profit for retention - rapid deduction amount for progressive tax x (1-15\%)}}$$

The 15 percent shown in the formula refers to the levy rate for the energy and communications fund. Inserting the figures in Example 3 into Formula F will produce the following:

critical point of risk =

$$90,000 \times \frac{31,314.85 - 5,830 \times (1-15\%) + 1,928.65}{44,735.50 - 5,830 \times (1-15\%)} = 64,000 \text{ yuan}$$

4) In the case of the proportionate apportionment of the base figure profit after making allowances for the income tax and levy for the energy and communications fund, the enterprise's income is the enterprise's after-tax profit-retention, the lessee's income portion comprises the rent and if rent is paid from the lessee's income, then computation of the critical point of risk will follow Formula G as follows:

critical point of risk =

$$\frac{\text{rent - rapid deduction amount for progressive tax x (1-15\%) x lessee's apportionment rate} + \text{lessee's annual normal income}}{\text{coefficient of lessee's income from proportionate apportionment of after-tax base figure profit}}$$

Example 4: Assuming that the base figure profits of a certain enterprise are 280,000 yuan, that after payment of the income tax and the energy and communications levies, apportionment is made on 3-7 basis, that is, 70 percent, or 83,793.85 yuan being the enterprise's after-tax profit-retention and 30 percent, or 35,911.65 yuan, being the lessee's income of which the amount of the rent is 30,000 yuan, payable from the lessee's income.

It is also known that the applicable tax rate on the base figure profit is 55 percent, that the rapid deduction amount for the progressive tax is 14,830 yuan, that the lessee's proportionate apportionment rate is 30 percent

and that the coefficient for proportionately apportioned income is 0.11475. If the lessee's annual normal income is 1,895.40, then insertions into Formula G will show the following:

critical point of risk =

$$\frac{30,000 - 14,830 \times (1-15\%) \times 30\% + 1,895.40}{0.11475} = 245,000 \text{ yuan}$$

It is also possible to make a direct computation without using the coefficient of the lessee's income from the proportionate apportionment after payment of the tax on the base figure profits, for which Formula H is as follows:

Critical point of risk =

$$\frac{\text{base figure profit x rent - rapid deduction amount for progressive tax x (1-15\%) x lessee's proportionate rate} + \text{lessee's annual normal income}}{\text{lessee's proportioned amount - rapid deduction amount for progressive tax x (1-15\%) x lessee's proportionate apportionment rate}}$$

Inserting the figures for Example 4 into Formula H, the showing will be as follows:

Critical point of risk =

$$280,000 \text{ yuan} \times \frac{30,000 - 14,830 \times (1-15\%) \times 30\% + 1,895.40}{35,911.65 - 14,830 \times (1-15\%) \times 30\%} = 245,000 \text{ yuan}$$

5) Method of computation when an enterprise meets with two kinds of tax rates. The above-mentioned eight formulas all use a method of computation which is applicable only when the rent and the critical point for risk or when the base figure profit and the critical point of risk are subject to one tax rate. When an enterprise meets at the same time with two tax rates, that is, two different tax rates for rent and the critical point for risk and two different tax rates for the base figure profit and the critical point of risk, then the computation results will deviate and there will be no way to revert to the original. Hence, the various formulas mentioned above cannot be used on conditions when two different tax rates are applicable to the same enterprise. Resort must then be made to using another kind of formula.

1. In cases when rent is paid out from profits and two tax rates are applicable, then two separate steps must be taken. The first step is to find the critical point for risk; and the second step is to find the amount affected by the two tax rates. Adding the two together will produce the actual critical point of risk. For example, assuming that the rent for a certain leased enterprise is 48,000 yuan, that the after-tax excess profits wholly belong to the lessee, that the known tax rate on the rent is 42 percent and that the coefficient of the lessee's income is 0.4930. If the lessee's annual normal income is 1,972 yuan, then the first-step entries into Formula A will be as follows:

Critical point of risk =

$$48,000 + \frac{1972}{0.4930} = 52,000 \text{ yuan}$$

It is thus seen that the critical point of risk is 52,000 yuan. According to the grade differences between the taxable amounts, the income tax rate on amounts from 25,000 yuan to 50,000 yuan is 42 percent and is the applicable tax rate to a rental of 48,000 yuan; the income tax rate on amounts from 50,000 yuan to 100,000 yuan is 48 percent and is the applicable tax rate to the critical point of risk. Thus, rent and the critical point of risk are subjected to two applicable tax rates and the second step is to find the increased portion of the raised tax rate. Computation Formula I as follows may be used to find the increased amount of the raised tax rate:

Increased amount from raised tax rate =

$$\frac{[\text{lessee's annual normal income}]}{\text{coefficient of lessee's income at tax rate applicable to the critical point of risk}}$$

-

$$\frac{\text{lessee's annual normal income}}{\text{coefficient of lessee's income at applicable tax rates}}$$

x

$$\frac{\text{critical point of risk - highest amount of applicable tax rate in the gaps of grade}}{\text{critical point of risk - rent}}$$

According to the above-mentioned example, the known critical point of risk is 52,000 yuan. With the applicable tax rate being 48 percent, the coefficient of lessee's income being 0.4420, the rental being 48,000 yuan and the highest amount in the gaps between the taxable

amounts being 50,000 yuan, insertion of these figures into Formula I will produce the following:

Increased amount from raised tax rates =

$$\begin{aligned} & \frac{[1972]}{0.4420} \\ & - \\ & \frac{1972}{0.4930} \\ & \times \\ & \frac{[52,000 - 50,000]}{52,000 - 48,000} \\ & \times 100\% = 2,307.700 \text{ yuan} \end{aligned}$$

The actual critical point of risk equals:

52000 plus 230.77 equals 52230.77

The above method of computation may also be used by leased enterprises in which rent is paid out from profits and the after-tax excess profits are proportionately apportioned. In such cases, the actual critical point of risk may be computed by only using the applicable tax rate and the coefficient of the lessee's income in the proportionate apportionment. 2. In the case of the base figure profits being proportionately apportioned after making allowances for payment of the income tax and of the levy for the energy and communications funds, payment of the rent not being from the lessee's income and the base figure profit and critical point of risk both meeting with two kinds of tax rates, computation of the actual critical point of risk may follow computation formula J as follows:

Actual critical point of risk =

$$\text{rent - rapid deduction amount at tax rate applicable to critical point of risk} \times (1 - 15\%) + \text{lessee's annual normal income}$$

$$\frac{\text{coefficient of lessee's income at tax rate applicable to critical point of risk}}$$

Example 5: Let us assume that the base figure profit of a certain leased enterprise is 60,000 yuan, and that after payment of the income tax and levy for the energy and communications fund, proportionate apportionment is made at 3-7, that is, 70 percent, or 22,032.85 yuan being for rent and 30 percent, or 8,442.65 yuan, being lessee's income from the realized profits. If the lessee's annual normal income is 2,064.65 yuan, computation either by Formula E or Formula F will yield a critical point of risk

of 43,244.34 yuan. It is also found that the base figure profits and the critical point of risk are two different taxable amounts, that the tax rate applicable to the former is 48 percent, the speedily deducted amount for the progressive tax is 5,830 yuan and the coefficient of the lessee's income is 0.4420, and that the tax rate applicable to the latter is 42 percent, the speedily deducted amount for the progressive tax is 2,830 yuan and the coefficient of the lessee's income is 0.4930. Applying these figures to Formula J produces the following results:

Actual critical point of risk =

$$\frac{22,032.85 - 2,830 \times (1 - 15\%) + 2,064.65}{0.4930} = 44,000 \text{ yuan}$$

3. In the case of the proportionate apportionment of the base figure profit being made, the rent being paid out from the lessee's income and there being two tax rates to pay, the computation formula, Formula K, is as follows:

actual critical point of risk =

$$\frac{\text{rent} - \text{rapid deduction amount at tax rate applicable to critical point of risk} \times (1 - 15\%) \times \text{lessee's proportionate rate} + \text{lessee's annual normal income}}{\text{coefficient of lessee's income from after-tax proportionate apportionment with the tax rate applicable to the critical point}}$$

Example 6: Let us assume that the base figure profit of a certain leased enterprise is 220,000 yuan, that apportionment after payment the income tax and the levy for the energy and communications fund is at the rate of 3-7, 70 percent being the enterprise's after-tax profit-retention and 30 percent, or 29,026.65 yuan, being the lessee's income from the realized profit and that the rent is 21,000 yuan payable from the lessee's income. If the lessee's annual normal income is 1896.45, applying the above-mentioned figures into either Formula G or Formula H will produce a critical point of risk at 166,577.78 yuan. It is known that the applicable tax rates on the critical point and the base figure profit are respectively 53 percent and 55 percent, being two different grade differentials in the taxable amounts. Of them, the quick deduction amount at the applicable tax rate on the critical point of risk is 10,830 yuan. The coefficient of the lessee's income is 0.11985. Applying these figures into Formula K will produce the following:

actual critical point of risk =

$$\frac{\text{rent} - 21,000 - 10,830 \times (1 - 15\%) \times 30\% + 1,896.45}{0.11985} = 168,000 \text{ yuan}$$

6) Computation method of the critical point of risk of enterprises enforce comparative tax rates in payment of the income tax. All of the above carry out computation

based on the provisions of the 8-grade progressive tax rates. However, certain enterprises under the system of ownership by the whole people enforce the comparative tax rates and also carry on leased management in which case the computation method of the critical point of risk is as follows:

1. In the case of the base figure profit being subjected to after-tax proportionate apportionment and payment of the rent is not from the lessee's income, then Formula L may be followed and is as follows:

critical point of risk =

base figure profit x

$$\frac{\text{rent} + \text{lessee's annual normal income}}{\text{enterprise's after-tax profit-retention}}$$

Or: critical point of risk =

$$\frac{\text{rent} + \text{lessee's annual normal income}}{\text{coefficient of lessee's income at applicable tax rates}}$$

2. In the case of the base figure profit being subjected to proportionate apportionment and payment of the rent is from the lessee's income, then Formula M may be followed in computing the critical point of risk, as follow:

Critical point of risk =

base figure profit x

$$\frac{\text{rent} + \text{lessee's annual normal income}}{\text{lessee's apportionment amount}}$$

Or: critical point of risk =

$$\frac{\text{rent} + \text{lessee's annual normal income}}{\text{coefficient of lessee's income from after-tax proportionate apportionment}}$$

The coefficient of the lessee's income in enforcement of the comparative tax rates is the same as the coefficient of the lessee's income at the tax rate of 55 percent when rent is paid from the profits and the excess profits wholly belong to the lessee; and the coefficient of the income from the after-tax proportionate apportionment is the same as the coefficient of the lessee's income from proportionate apportionment subjected to the tax rate at 55 percent when rent is paid from the profits and the excess profits are proportionately apportioned. This can be seen from Table 1. In actual operations, the following points should be noted: First, it is necessary to note the difference between rent being paid out from profits and after-tax proportionate apportionment of the base figure profit. The critical point of risk pertaining to the former is larger than the profit that must be protected (rent)

while in the case of the latter, the critical point of risk is smaller than the base figure profit. Second, it is necessary to note the difference between the rent being paid from the lessee's income and its not being paid from the lessee's income in the after-tax proportionate apportionment of the base figure profit. In the case of the former, the coefficient of the lessee's income is the same as the coefficient of the proportionate apportionment of the after-tax excess profit when rent is paid from the profit; while in the case of the latter it is same as the coefficient of lessee's income being the whole of the after-tax excess profit when rent is paid from the profit. Third, it is necessary to note that in the case of the after-tax proportionate apportionment of the base figure profit with the rent being paid from the lessee's income and in the case of the rent being paid from the profit and proportionate apportionment being made of the after-tax excess profit, the proportionate apportionment rates of both occupy the same position, and cannot be neglected or missed in the formula. At the same time, in the case of the proportionate apportionment of the after-tax base figure profit with the rent not being paid from the lessee's income, the proportionate apportionment rate is for the purpose of fixing or demarcating the rent.

III. Operation Risks of the Two Parties of the Lease and Analysis of the Compensation for Risk

Distribution in leasing operations determines the risks and at the same time suffers from the effects of the 8-grade progressive tax rates. Whether the realized profits of a leased enterprise are lower than, or are equivalent to, or exceed the critical point of risk, in all cases great effects are produced on the operational risks or compensation for risks of the lessee, the guarantor, and the lessor. We now divide them into three separate types and make a brief analysis of them.

1. Leasing operations of original meaning or significance. In the case of a leased enterprise which depends on profit to pay rent, if in a given year the realized profit is lower than the rent, then it must make compensation in full and the operational risks are therefore great; if the after-tax excess profit wholly belongs to the income of the lessee, then the compensation for risk is likewise great; hence, reward and punishment are basically on an equal basis and are in conformity with the original meaning of leasing operations. Under such a leasing form, the lessor has no risks and on the other hand assures payment of the state's income tax and levy for the energy and communications fund and the larger the amount of excess profits the greater the payment into the income tax and the energy and communications fund. If originally the enterprise loses money, the loss is offset by the tax. In reality, the enterprise's earnings increase in accompaniment with the income in the realized profits. So far as the lessee is concerned, if the realized profit is lower than the rent, then compensation must be made from private property; if the realized profit is higher than the rent but lower than the critical point of risk, then the lessee must resort to the method of reducing such normal

income as salaries wages and bonuses in order to offset payment of the income tax and levy for the energy and communications fund on the portion higher than the rent. If the applicable tax rate is 35 percent, the loss compensation amount is 5,525 yuan on 10,000 yuan; if the tax rate is 42 percent, the loss compensation amount is 4,930 yuan; if the tax rate is 48 percent, the loss compensation amount is 4,420 yuan on 10,000 yuan; if the tax rate is 53 percent, the loss compensation amount is 3,995 yuan on 10,000 yuan; and if the tax rate is 55 percent, the loss compensation amount is 3,825 yuan on 10,000 yuan. Thus, the economic risks are rather great. However, if the realized profits are higher than the critical point of risk, the lessee's income is equivalent to the loss compensation amount on 10,000 yuan at the corresponding tax rates. The compensation for risks is thus also great, and the economic risks and compensation for risks are basically equivalent to each other. Hence, in determining this type of lease form, we must look into the feasibility of the realized profit being sufficient to pay the rent and also consider the lessee's and the guarantor's financial capability and cannot raise or lower the amount of the rent at will. In general, it is suited for use by small-scale enterprises with a realized profit each of below 30,000 to 40,000 yuan.

2. Leasing operations not conforming to the full meaning. In cases wherein profit is taken as the base, any deficit to be wholly made up and proportionate apportionment is made of the after-tax excess profit, if regarding the lessee's loss compensation amount on every 10,000 yuan in the event the excess profit does not reach the critical point of risk and the amount of his income from every 10,000 yuan in the event the realized profit exceeds the critical point of risk, division is made on a 2-8 basis, then it is equivalent to 20 percent of the corresponding tax rate on the wholly retained portion of the excess profit; if the division is made on the basis of 3-7, then it is equivalent to 30 percent of the whole retention after tax at the corresponding tax rate, and so on. In such a method, the lessee's operational risks are great, his compensation for risks is small, and his income from the after-tax apportionment amounts to only 7.6 percent to 22.1 percent of the amount of excess profit (see Table 1). As for the lessor, in the event the realized profit exceeds the rent, he can get a proportionate apportionment whereas if the realized profit is less than the rent, the amount of the rent can still be protected and there are no operational risks. There is thus much disparity between compensation for risks and operational risks. In fact, the lease character misses the whole meaning. Such form of leasing is usually suited to small enterprises with realized profits of from 50,000 to 100,000 yuan. In selecting this lease formula, the lessor should appropriately lower the rental so as to reduce the lessee's operational risks and be in conformity with his ability to bear the burden of any compensation to be made.

In the case of an enterprise which practices the proportionate apportionment of the base figure profit after making allowances for the income tax and the levy for the

energy and communications fund and the rent is not paid from the lessee's income, its income is same as that of the lessee subjected to the practice of paying rent from the profit, making full compensation for any deficit and

carrying out after-tax proportionate apportionment. If in a given year, the realized profit is higher than the critical point of risk, the lessee's and the lessor's income on every 10,000 yuan is shown in the following table (Table 2):

Table 2 Comparative Table of Lessee's and Lessor's Incomes on 10,000 Yuan If Realized Profit Exceeds Critical Point of Risk

Income Tax Rate	lessee's income on 10,000 yuan			lessor's income on 10,000 yuan		
	2-8	3-7	4-6	2-8	3-7	4-6
35 pct	1105.00	1657.50	2210.00	8895.00	8342.50	7790.00
42 pct	986.00	1479.00	1972.00	9014.00	8521.00	8028.00
48 pct	884.00	1326.00	1768.00	9116.00	8674.00	8232.00
53 pct	799.00	1198.50	1598.00	9201.00	8801.50	8402.00
55 pct	765.00	1147.50	1530.00	9235.00	8852.50	8470.00

From the above table, it can be seen that in a given year the more the realized profit exceeds the critical point of risk, the larger is the compensation received by the lessee from the risks; but the lessor obtains even more, being 3.5 to 12 times the lessee's income. So far as the lessee is concerned, he has made a meritorious contribution to the state and also benefitted himself. As for the lessor party, we should not be jealous of him but should accord him due encouragement. This is because the compensation for risks is smaller than the operational risk, the usual ratios being: if division is on 2-8 basis, ratio is 1:4; if on 3-7 basis, ratio is 1:2.3; and if on 4-6 basis, ratio is 1:1.5. Thus, the two are not equal. This is also rather small when compared with the operational risks of paying rent from profit and making proportionate apportionment of the after-tax excess profit. This is because rent is the largest compensation item in the proportionate apportionment of the base figure profit

and rent is only a portion or a big portion of the after-tax profit-retention of the enterprise; in the event rent is paid out from profit, compensation for rent in the after-tax proportionate apportionment of excess profit includes the income tax and levy for the energy and communications fund that should be paid as well as as the whole of the enterprise's profit-retention.

In an enterprise in which from the proportionate apportionment of the after-tax base figure profit the rent is not paid from the lessee's income, if in a given year the realized profit is lower than the critical point, the lessee and the guarantor must make compensation for the rent with their private properties and hence there are operational risks. On the other hand, the losses on the lessor's side are even larger and similarly must bear the even larger operational risks. The following table (Table 3) shows the amounts of risks incurred on every 10,000 yuan:

Table 3: Comparative Table of Each Party's Risks on Every 10,000 Yuan if Realized Profit Is Lower Than Rent

Income Tax Rate	Lessee's compensation Payment on 10,000 yuan			lessor's amount of loss on 10,000 yuan		
	2-8	3-7	4-6	2-8	3-7	4-6
35 pct	4420.00	3867.50	3315.00	5580.00	6132.50	6685.00
42 pct	3944.00	3451.00	2958.00	6056.00	6549.00	7042.00
48 pct	3536.00	3094.00	2652.00	6464.00	6906.00	7348.00
53 pct	3196.00	2796.50	2397.00	6804.00	7230.50	7603.00
55 pct	3060.00	2677.50	2295.00	6940.00	7322.50	7705.00

Table 3 above shows that in an enterprise in which after the proportionate apportionment of the base figure profit the rent is not paid from the lessee's income, if in a given year the realized profit is smaller than the critical point of risk, the lessor's operational risks are larger than those of the lessee. This basically means that the lessee's operational risks are larger than the compensation for risks. The safety coefficient of the lessee is also higher. In example 3 mentioned above, the base figure profit is 90,000 yuan and the critical point of risk is 64,000 yuan. It is only necessary for the realized profit to amount to 71.1 percent of the base figure profit, then the lessee's normal income can be ensured, he will not need to make any compensation payment for rent and cannot get

more, but basically it is safe and conforms with the lessee's capability to bear any compensation payment for rent. Selection of this type of lease formula is generally suited to small enterprises with realized profits ranging from 50,000 to 12,000 yuan.

3. Risky type of contracting with mortgaging or pledging of properties. In enterprises in which, in the proportionate apportionment of the base figure profit after allowances for the income tax and the levy for the energy and communications fund, if in a given year the realized profit is larger than the critical point of risk, then the lessee gets less while the lessor party gets more; conversely, what the lessee has to pay in compensation is

small while the risks borne by the lessor party are even larger. In so case, the lease is only in form and is lacking in essence. In reality, it is a risky type of contracted management with properties as mortgage and the elements of stimulation are relatively weak. Table 4 below

shows the lessee's income on 10,000 yuan when the realized profit is higher than the critical point of risk and his amount of compensation for rent when the realized profit is lower than the critical point of risk:

Table 4

Income Tax Rate Lessee's compensation amount on 10,000 yuan if realized profit is lower than critical point of risk Lessee's income on 10,000 yuan if realized profit is higher than critical point of risk

	2-8	3-7	4-6	2-8	3-7	4-6
35 pct	729.20	1093.95	1458.60	375.70	563.55	751.40
42 pct	646.80	976.14	1301.52	333.20	502.86	670.48
48 pct	583.44	875.16	1166.88	300.56	450.84	601.12
53 pct	527.34	791.01	1054.68	271.66	407.49	543.32
55 pct	504.90	757.35	1009.80	260.10	390.15	520.20

In an enterprise in which proportionate apportionment is made on the after-tax base figure profit and rent is paid from the lessee's income, the rent generally occupies about two-thirds of the lessee's income. Table 4 is made on the estimate of the rent occupying 66 percent of the lessee's income. The results show that the lessee's compensation amount ranges from 5.04 percent to 14.59 percent when the realized profit is lower than the critical

point of risk and that the amount of his income ranges from 2.6 percent to 7.51 percent when the realized profit is higher than the critical point of risk. On the other hand, on the lessor's side the income amount when the realized profit is higher than the critical point of risk and his loss amount when the realized profit is lower than the critical point of risk are both rather large, as shown in the following table (Table 5):

Table 5

Income Tax Rate Lessor's loss amount on 10,000 yuan when realized profit lower than critical point of risk Lessor's income amount on 10,000 yuan when realized profit higher than critical point

	2-8	3-7	4-6	2-8	3-7	4-6
35 pct	9270.80	8906.05	8541.40	9624.30	9436.45	9248.60
42 pct	9352.20	9023.86	8698.48	9666.80	9497.14	9329.52
48 pct	9416.56	9124.85	8833.12	9699.44	9549.16	9398.88
53 pct	9472.66	9208.99	8945.32	9728.34	9592.51	9456.68
55 pct	9495.10	9242.65	8990.20	9739.90	9609.85	9479.80

As seen from the above table, the lessor's loss rate at the critical point of risk can reach as high as 94.95 percent or 89.9 percent at the lowest; its income amount can reach the highest at 97.4 percent and lowest 92.49 percent. Table 4 showed that the lessee's risks and compensation for risk are both rather low. Hence, the original meaning of leasing management is missing and possesses only the character of the risky type of contracted management on the basis of pledging or mortgaging of property. This is in conformity with the basic condition of the initial stage of socialism in our country. This is because these types of operational risks on the part of the lessee are large when compared with the property in mortgage; they are rather small when compared with the lessor's operational risks; they are rather larger compared with the compensation for risks; and when compared with the private property's capacity to bear at the initial stage of socialism, they are suitable for the purpose. Hence, the method of leased management calling for, in the proportionate apportionment of the after-tax base figure profit, payment of the

rent from the lessee's income is in general suited to small enterprises when the realized profits of the leased enterprises can reach over 150,000 yuan. If this type of enterprise carries out the method of leasing calling for payment of the rent from profit, when the lessee's income amounts to several tens of thousand yuan and to several hundred thousand yuan, then there is too great a disparity from the income of the staff members and workers and therefore unacceptable to the staff members and workers. At the same time when the lessee's compensation amount is as high as several tens of thousand yuan or even several hundred thousand yuan, then the lessee is unable to bear this and therefore this is not acceptable.

In short, both parties to the lease should take the critical point of risk in the selection of the lease formula and use it as the basis for determining the rental amount and the base figure profit. When the critical point of risk is too high or too low, the base figure profit, rent and the rate

of apportionment must be correspondingly readjusted; otherwise the lessee, the economic guarantor, and the lessor will meet with unbearable operational risks. An understanding and grasping of the critical point of risk is essential to both parties of the lease and helps in overcoming the blind character in policy making on leasing operations and in strengthening its scientific character.

JINGJI YANJIU on Tightening Money Market
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[Article by Jia Kang [6328 1660] of the Financial Research Institute of the Ministry of Finance: "Tightening the Money Market and Reducing the Scale of Investments—a Discourse on the Points to Stress and Transforming Conditions in Demand Control in China"]

[Text] 1. In the over 30 years after the founding of the PRC, many relatively noteworthy occurrences of demand inflation have appeared in China. Before the reform of the economic structure, inflation in general had a single wing, being centralized in investment; since the reform, its manifestation is in possession of two wings, namely, simultaneous inflation in investment demand and consumption demand. The associated phenomenon of demand inflation is a relatively large degree of monetary inflation (including concealed monetary inflation).

In recent years economists both in the country and abroad have greatly stressed the key significance to macroeconomic control in China of "putting the bridle on the money supply" (controlling the volume of issuance of bank-notes). Comrade Wang Zhaofei [3769 4801 7378] pointed out: "Investment inflation in fixed assets is entirely due to the excessive issuance of banknotes: without the excessive issuance of banknotes there is never any possibility of inflation in fixed asset investments. If the defect of fixed asset investments taking advantage of the practice of "everybody eating from the same big pot" at the expense of the issuance of banknotes is not rectified, it will not be possible to control the scale of fixed asset investments," ("Fixed Asset Investments and Reform of the Banking Structure," JIN-YONG YANJIU No. 10, 1987). They ascribed the rise in commodity prices and inflation in demand to the causes of over-laxity in money supply. This seems to be generally logical. However, if we consider the certain outstanding and special features in the economic operations in China, particularly viewed from the angle of the work in our country's macroeconomic control, in my opinion this understanding has not yet grasped the real point of stress. Regarding the handling of the problem of demand control in China what has key significance is precisely that we must understand how and in what way money supply in our country is over-lax (why it cannot be tightened) and how it is possible to "hold tight" the bridle of money supply (what is the prerequisite to effectively carrying out the money

policy?). If at a time when we have definitely and clearly advocated the control of the supply volume of money and when the Central Bank has been devoting utmost efforts in this connection, the monetary bridle can in no way be held tight or controlled (such as the condition in 1984), then we cannot but earnestly study the special limitations of the position and role of the monetary policy in the realistic economic life of our country.

2. Monetary policy and financial policy are the two big policies and measures in enforcing demand control in the macro-economy. In the current Western developed countries, when demand is too brisk, they would resort to the mutual coordination between financial and monetary policies (financially controlling the expenditures and the Central Bank tightening the money market or using both methods) to check and depress the demand, this being a typical way in macroeconomic regulation. Due to that in these countries the leading trend is not demand being too brisk but demand being insufficient, the chances of putting these measures of contraction in operation are far less than measures of intentionally stimulating the expansion of demand. Generally speaking the effectiveness of the above-mentioned demand-control measures requires the preconditions of the government's actions and the enterprises' actions being of a regulatory nature along the following two lines:

1) Government does not bear the functions of investing in the general run of profit-making construction projects and its investment-objects are principally public projects of a non-profit-making nature. Regardless of whether the policy on money supply is a lax one or contracting one, the financial budget and investment outlay both make either lax or contracting arrangements corresponding to and coordinating with the projects. The Central Bank concretely handles and grasps the monetary policy and enforces it based on a whole set of financial tools formed by parameter measures. The various commercial banks and financial organs are of the nature of enterprises, they are bound to accept the regulation of the Central Bank's above-mentioned economic measures and should lead and implement this regulation in their credit relations with the rank-and-file enterprises. Thus, governments at various levels do not possess the investment motive force which is contrary to, subjectively speaking, the demand either for a lax or contracting control; ordinary profit-making projects are guided by the market (plus state intervention) and engaged in by the enterprises autonomously.

2) The enterprises, being operators in commodity production which are solely responsible for their own profits and losses and bearing by themselves the investment risks, must take the changes in the economic parameters of prices, interest rate, tax rate, and so forth as their fundamental basis and decisive signals in their policy-making. To the lax or tightened money market they must regularly react in a considerably sensitive manner. Those enterprises which cannot stand the severe tests of a macroeconomic environment formed by tightening of

the money market will face the threats of closure, bankruptcy, and elimination in competition. Hence, macroeconomically the tools of control (parameter regulatory measures) lending aid to implementation of the financial policy may be relied upon for making fairly acceptable predictions on the effects of control.

It can be seen from the above that in the west the relatively "effective" measures of control of demand in use are measures of macroeconomic indirect control in which the liaison between government's actions and the actions of the enterprises is basically done by the market as the link. There the government's indirect control over the enterprises is in coordination with the control structure, the intermediate role of the market and the micro-economic basis and is unanimous with the pattern of the economic operations.

3. Comparing China's conditions with those in the west, there are the following differences:

1) In China, be it before the reform of the economic structure or after it, governments at various levels have all engaged in, and been enthusiastically engaging in, investments in production and construction projects (including a large number of general profit-making projects). In particular, the investment enthusiasm of local governments at various levels has been extremely high. When seen from the macroeconomic situation as a whole there is need to exercise a relatively a tighter policy of controlling funds, local governments generally do not recognize that within their spheres of jurisdiction the investments have any problem of being excessively large, blind in construction or redundant in construction (actually from the local governments' special view truly many not exactly unreasonable explanations have been offered), their investment actions have frequently become a major force in breaking the target of controlling gross demand. Even though macroeconomically the target of controlling the volume of issuance of banknotes for a fiscal year has been clearly fixed, the governments at various levels in reality never have paid any attention to the problem of money when they proceeded to carry out their various investment projects. By the time when they had to draw on the bank account for cash to pay the salaries and wages of their construction workers, the investments would only then realistically reflect a bearing on the volume of issuance of banknotes. Seen from the angle of the work of the banks, the annual volume of issuance of banknotes is the net issuance volume derived from the gross volume of issuance on a nation-wide basis for the fiscal year minus the volume of returned flow of money to the treasury. Hence, the banks have no way to control the issuance of notes when any one concrete project is concerned. Unless government has ruled that a particular project should not be built or constructed, the bank cannot refuse to pay on it. Hence, the link of money input itself cannot constitute any restriction. Moreover, since interest rate cannot exercise any restriction on government's investment actions under a weak or soft budgetary control, in China the important gates worthy

to be so called in the supply of funds in the stages of monetary investment are the scale of loans and the scale of financial expenditures. But these two gates are still rather loose. Aside from the various specialized banks (in fighting for base figures) entertaining of themselves the trend to enlarge the scope of their loans, local governments, at a time when the central government is not determined enough to exercise control and the administrative measures not having reached the extreme (such as those in charge "threatening to put their jobs at stake unless the measures to depress investment are implemented), can still resort to various means to compel the banks to grant more loans, thereby causing a break-through in the gross volume of loans and the issuance of more banknotes. As for the direct investments made by governments at various levels through the regular financial and budgetary channels leading to an excessive scale in the gross financial outlay and thus causing red figures in the budget, the bank over-drafts resulting therefrom will aggravate the stringency of the credit and loan funds and lead to an excess volume of issuance of banknotes.

In short, in China the government's investment actions do contain the reality of leading to inflation of demand and vis-a-vis actions of this kind the bridle of the supply volume of money of the financial system can hardly play the role of a controlling gate which can effectively serve its purpose.

2) In China, the backbone of the national economy is the state-run enterprises. Before the reform of the economic structure, the state-run enterprises had no decision-making power in investments, bore no operational risks, delivered their profits in full to the state but were fully compensated in the event of losses. The demand of the enterprises was in reality principally the government's demand (also including certain demand elements stirred up by the enterprise leadership's "motivation" in expanding the scope of their functions); the problem of control of the enterprises' actions in investments was in reality the problem of control of the government's actions in investments. Since the reform, the enterprises' decision-making power has been expanded, and the condition of profit or loss has established a definite liaison with the enterprises' own interests, forming a call or demand with the enterprise as the principal body. The regulation and control of this call or demand have shown a relatively complex situation. 1) Following the strengthening of the guidance role of market profits, the enterprises' investments have begun in a definite degree to accept the parameter regulation of such financial and monetary policies as interest rate and others. 2) Administratively, the enterprises are subordinate to a specially fixed grade of government, and the sensitivity to the wishes of the government department and person(s) in charge occupies the first place of importance while the sensitivity to parameter levers and market prices and signals occupies the second place. The government's investment desires can very easily be transferred to the

enterprises and quite possibly be enlarged by the enterprises. If only government can bear the risks, the attitude of the enterprise leadership to new projects is the more the better. The so-called "double reliance" of state-run enterprises is more fundamental than the reliance (or adherence to) on the governmental "mother-in-law" in charge. 3) Since expansion of the decision-making power of the enterprises on matters related internally to salaries, wages, bonuses and welfare, the enterprise leadership, for the sake of "stirring up the staff's enthusiasm" and obtaining their support, cannot but to a large extent resort to such stimulating measures as rewards and fringe benefits. At the same time, the stiff character of interests and the competition between the staff members in general make such stimulation become continuously stronger, difficult to be stabilized and far less capable of being weakened or reduced. It will eventually develop to a situation in which funds originally intended for use in expanded reproduction or even simple reproduction are diverted to spendings on fringe benefits, granting of bonuses and so forth, thus leading to consumption inflation. Under such conditions, the enterprise being quite unable to mend this "hole" on the production side, the only way is for government to appropriate funds or to grant loans to solve the problem. And the fact that between the government and the enterprises a "father-son" relationship is still being maintained will in the end force the government to show its concern with the interruption in reproduction on the part of "its own enterprise," and thus there will be a definite satisfaction of the call for expanding the volume of demand caused by the above-mentioned diversion of consumption to the production side. Summing up the above-mentioned conditions on various sides, it is easy to understand why against the autonomous investment and autonomous demand on the part of the state-owned enterprises tightening the money market (raising the interest rate or controlling and containing the volume of loans), while playing the role of "lowering the temperature" for a short time, can produce only scanty effects; and after there has been a universal cry among the enterprises of "being short of funds", without going through an eliminating process following market competition, in the end the money market will be loosened again and the final result is that it is "tightened but not screwed hard," with the issuance of banknotes being still excessive, and demand continuing to be over-heated. Assuming that the development of demand inflation has reached an exceptionally serious state, to such an extent that the government is forced to determinedly ordering the closure or charge to other production of certain state-owned enterprises, then at such a juncture control demand will at once demonstrate a full amount of rigidity and effectiveness, but this will come from the government's administrative orders and not from the economic parameter tactics.

In short, China's state-owned enterprises bear a specially fixed subordinate relationship to the government.

Because the budgetary restrictions are weak, in controlling the tendency to expand demand in the actions of the state-run enterprises, mere reliance on the parameter measure directly related to the policy of money supply, namely, "tightening the money market," can play only a very limited role.

Examined from the historical and actual conditions, it is found that in controlling gross demand in China's economy an effective measure all along has been the mandatory contracting of the construction scale. The construction scale is constituted by all the construction projects contained in the general basket. This general market is determined by the central policy-makers (or policy-making groups), and if it is eventually found to be overly large, the central authorities will have to make the determination to have it reduced in size. Under the structure of high power concentration in the central government, the main cause of the construction scale being overly large may be generally attributed to the errors in policy making of seeking quick results on the part of the central authorities. Under the condition of delegating power to the localities, another kind of condition may appear and this is principally that the localities each seeking to expand its own construction scale and thus making the construction gross scale exceed the limit which the central government concedes to be normal or finds it to be acceptable. Thus, there will be the demand to cut down the scale. Regardless of whichever condition, the effective measure to cut down the scale is the use of administrative orders as a nucleus to cancel or stop the construction of projects and in coordination with it the control of the supply of funds (on the financial side, it is cutting down fiscal expenditures and on the banking side it is controlling the volume of loans.) Cutting down the construction scale leads to cutting down the scale of supply of funds and progressively to reducing the volume of issuance of banknotes and to "holding tight" money's bridle; not to cut down the construction scale will render it impossible to cut down the scale of supply of funds and the supply volume of money. In reality, the policy on supply of funds and the monetary policy on the one hand are subservient to policy-making on the construction scale on the part of the highest decision-making level of the central government and on the other hand follow the realities of the construction scale formed by local governments at various levels each setting up their stalls. In themselves, the policies have a rather weak initiative in the direction of cutting down demand and their effects are indeed rather low. This special limitation of the financial policy in China is closely related to the country, through administrative subordinate relationships, enforcing an economic structure and operational pattern of direct control as well as its political structure and macroeconomic decision-making system. It also possesses deep-laying causes on such sides as national conditions, stage in development of production and the nature and structure of production relations.

Definitely, these are not merely problems on such levels as monetary policy, banking structure or the distribution structure in finance and in banking. Basically speaking, the problem is one of the structural pattern of the situation as a whole. Hence, merely taking into consideration the defects on such levels as the supply of funds and distribution of funds, and then hoping that through mending them we can bring about a change in the appearance of the whole situation can hardly achieve any real progress.

The above-mentioned important and great disparities in the pattern of economic operations between China and the developed countries in the west determine the notable differences in the effective points of stress in the control of macroeconomic demand. If we take the nucleus tactic of controlling demand by means of an indirect control structure such as employed in western countries, namely, control of the volume of money supply, as the key in demand control in China, then there will be no way of attaining the anticipated targets. So long as there is no decisive change in the situation of principally counting on direct control, "holding tight the bridle of money" at the utmost is a measure that can play only a supplementary role. Naturally, as for the direction of the efforts to be made, at present such measures as the taking a reasonable grasp of the volume of money in circulation and the monetary policy, strengthen the NPC's supervision in this connection, and so forth, are entirely necessary but only after the formation of a new structural pattern based principally on indirect control, and in an operational pattern the "state regulating the market and the market guiding the enterprises," can control of the "money bridle" and its parameter be truly effective. Before attaining this stage, the key in demand control and the effective stressing point still consists of grasping the construction scale. Comrade Tian Yuan [3944 3293] and Dai Guoqing [2071 0948 1987] have pointed out: "Under our country's current economic structure, the large or small scale in construction is the first and foremost factor in determining the volume of the issuance of banknotes." This is entirely correct.

Here it is necessary to point out: Since the reform of the economic structure, there has been a notable difference in the economic operational procedure between certain non state-owned enterprises (such as certain categories of township and town enterprises) and state-owned enterprises. These enterprises hold no subordinate or directly dependent relationship to the government and their investment and consumption actions are extremely sensitive to changes in such economic parameters as interest rate and tax rate. When they cannot pass their days when the money market is tightened, due to the lack of government support, they can only close their doors and thus vanish from bring a constituent element of gross demand. This condition illustrates the microeconomic growing point in indirect control; with the development of the reform, such a growing point can definitely continue to expand. Nevertheless, whether or not

we can depend on the growth of non state-owned enterprises to the extent that they can play a decisive role vis-a-vis the entire national economy and then proceed to realize the transformation of the whole economic pattern is a problem which is extremely complex and needs to be penetratingly studied. Over the past 9 years since the reform of the economic structure, the central difficult problem facing us has been how to invigorate the large and medium-sized enterprises which have been factually in existence and have constituted the backbone of the national economy.

5. "Tightening the money market" represents an economic coordinating measure while "reducing the scale" is an administrative coordinating measure. On the side of macroeconomic control, the process of conversion from a principally counting on administrative measures to principally counting on economic measures must be considered in the background of reforming the whole strategy and policy and reforming the whole coordinating structure.

Actual practices in reform both in China and in other socialist countries have shown that in the process of reform of the economic structure, economic problems, political problems and problems of social stability must be glued together and be inseparable. To achieve progress in reform, we need an environment which possesses a certain degree of stability and in which gross demand does not exceed gross supply. If the reform has already produced actual results then naturally this will help in procuring a longterm stability. But speaking from the primitive or first stage, stability is a pre-determined condition, is a political prerequisite to solving the economic problems and is also a necessary environment for the market mechanism which the reform needs to introduce to more normally display its role, otherwise, the reform measures on such sides as prices, planning, finance and taxation, currency, circulation of materials, investment, foreign trade, labor and personnel and so forth will be hindered and cannot go on stage or, even though able to go on stage, they cannot reach the anticipated destination except taking "minor steps" at a high cost in the original route. It is not over-stated that creating the primitive or initial conditions has a direct bearing on the destiny of the reform. Comrade Yu Zurao [0060 4371 1031] has said: "We can resort to strengthening administrative intervention to ease the contradiction between gross demand and gross supply but this balancing in gross volume realized is only the starting point of the next round of the vicious cycle. Hence the basic way out is to deepen the reform." Although such an understanding is relatively positive in meaning but is still relatively unclear is grasping the relations between condition and objective. In my opinion, it is necessary to have a clear understanding of using administrative measures to control the liaison between controlling demand and deepening the reform.

1) Before truly entering into the new structure, in the event of occurring relatively serious demand inflation, only administrative intervention, using principally the measure of direct control, can reach the objective of a general balancing in the gross volume. This is natural because outside of it there is no other effective method. At such a juncture the difference between "sudden braking" and "soft landing" lies principally in the degree of severity in the administrative measure and in the difference between whether it is sustained for a long time or lasting for a short period, and not in any decisive change in the mode of control. If reliance is placed only on economic measures, then being "soft" may be the case but "landing" will be protracted. Regarding this reality we must have a clear understanding. We cannot, prior to the indirect control system having assumed its stature, principally rely on the monetary policy and the measure of parameters to attempt to solve the problem of stability.

2) Balancing the gross volume formed through administrative intervention has no inevitable liaison by itself with the next round of the vicious cycle. If the framework of the subsequent structure remains the same, naturally it will be the starting point of a new version of the old-style cyclical period; if we can in this relatively advantageous environment and during this period successfully push reform of the structure and make the operational pattern of the economy correspondingly develop definite changes reaching the critical point of "partial quality changes" in the national value, then it will be possible to leave the track of the old-style cycle and enable the economy to follow the gradual establishment of the framework of the new structure and be converted to a new stature tending to a benign cycle and at the same time greatly increasing the effects of the economic coordinating measure.

3) After having realistically created a situation of economic stability, the key lies in coordinating the reform. If coordinating the reform works out well then the stability derived from administrative control can gradually be changed into becoming the beginning of a form of direct control mainly based on administrative measures. If coordinating the reform is not performed well, then quite possibly under certain new forms there will be a repetition of the old-style cycle of "opening, confusion, contracting, and death." Since the policy and strategy of the reform must handle the various categories of the two-way difficult problems in the interchange between the new and old structures, they naturally are rather complex and pose a high demand for grasping the work as well as the point of stress. Relying on the control effects of the old structure to turn out an initial environment sorely needed in establishing a new structure is a big and important link which cannot be avoided in grasping the reform policy; it provides reform with an initial ground which cannot be lacking. A systematic coordinating engineering work with the reform strategy is not to lose any opportunity in tightly grasping an advantageous environment of relative stability and, by

means of certain smooth and gradual changes and certain abrupt changes acceptable to the various sides of society, to gradually realize the reorganization of the interest distribution pattern and the transformation and change of the economic operational rules and structural pattern. It solves the problem of the direction and wholesale enforcement of the line of reform. Upon considering the realities of the current demand inflation staying high and declining to climb down and the protracted delay in a systematic coordinating scheme, in my opinion China's reform, at the same time as summing up the experiences on the successful side in the preceding several years, needs to carry out some deep retrospection and careful and thorough new planning on both of the two large links of "grasping opportunity" and "all-round coordination."

Evaluation of Trial Application of Fund Accounting System

40060334 Beijing JINGJI RIBAO in Chinese
17 May 88 p 2

[Article by Xu Guohua [1776 0948 5478], et al.: "A Preliminary Evaluation of the Trial Application of the System of Separate Accounting of Funds in Enterprises With Contracted Responsibilities"]

[Text] Enterprises with contracted responsibilities have been popularized since last year, and the purpose is to smooth the relationship between the owners, the managers, and the producers, and turn enterprises into fairly independent producers of commodities. If the contract responsibility system is to be complete, comprehensive, thorough, and better developed, we still need to solve a series of problems, the most urgent among which is to make enterprises truly responsible for their own profits and losses and avoid short-term measures. There are several aspects of this problem which need to be addressed. From the point of view of financial management and allocation of benefits, separate accounting of funds may be a good solution.

Separate accounting of funds means that while enterprises remain under the existing ownership-by-the-people system, all of an enterprise's funds are to be recorded as state funds or enterprise funds in the account books, depending on their respective origins, and similarly, enterprise profits are classified as generated either by state funds or by enterprise funds according to the proportion of current funds for production in the two fund categories. The more profit the enterprise funds generate, the higher the percentage of retained profit and the more favors and management authority that will be allotted to the enterprise by the state. Furthermore, in allocating bonuses out of the enterprise funds, the workers' contribution to the development of enterprise production in the current year is considered along with their contributions in past years, linking the personal benefits of the workers to the long-term benefit of the enterprise, in order to encourage enterprises to accumulate funds more vigorously.

The delineation of state and enterprise funds is based on the following principle: all fixed funds and all state appropriated current funds the enterprise had before it became a contractor are deemed state funds. While under contract, all new fixed assets and all supplementary current funds generated by the enterprise's retained profit, and funds put into the enterprise syndicate or put into diversified operations, and retained profit not yet invested or put to use are deemed enterprise funds. Fixed assets secured through loans which are paid back with a part of the retained profit are deemed enterprise funds. If those loans are repaid with pre-tax funds, the assets will be classified as state or enterprise funds based on the same percentages for allocating profits between the state and the enterprise prior to the application of the contract responsibility system. Every accounting year, enterprises must account for the proportion of productive fixed funds and current funds in the state funds and in the enterprise funds.

Separate accounting of funds under the contract responsibility system has the following advantages:

1. Enterprises get the benefits, and bear the risks, when they assume the contract responsibilities. They are responsible for profits and losses. After the system of separate accounting of funds is set up, if the enterprise makes a profit, by reinvesting its funds, it increases the amount and the proportion of its accumulated funds, and it also gets a higher percentage of retained profit and more consumption funds. If the enterprise is mismanaged and fails to deliver the profit as contracted, or if it loses money, it must use its own funds to pay for the loss. If it does not have sufficient funds, it must dip into its reserved funds, or its current funds, or sell off some of its assets. Meanwhile, it has to check and deduct the amount of enterprise funds, and at the same time, reduce the bonuses for the people responsible for the contract and those responsible for production. In this way, as a form of capital, enterprise funds bear the brunt of losses incurred by state-owned enterprises. As the source of funds for an enterprise which is losing money, enterprise funds affect the interest of the workers, making them share in the risks of enterprise operations, and enterprise funds become the enterprise's risk premium. This is far more practical than asking the manager to mortgage his personal assets to pay for the loss. As the enterprise accumulates more funds, not only can the manager and the workers feel more secure, the reputation of the enterprise is enhanced, and the workers share the glory.

2. It encourages enterprises to be more enthusiastic about fund accumulation, and guides enterprises toward self-development. Separate accounting of funds links enterprise retained profit and the workers' consumption funds to the amount of enterprise funds and their percentage in the enterprise's total funds, and this creates a benign cycle which encourages enterprises to make improvements and develop their potential. If they invest

more funds to increase output, the proportion of enterprise funds will increase, and they get a higher percentage of retained profit, which increases the consumption funds allocated to the workers. This in turn encourages the workers to be more productive, and entices enterprises to devote even more input to production.

Furthermore, separate accounting of funds not only links enterprise retained profit to the actual profit level, it also links retained profit to enterprise accumulation and development. This changes the tradition where benefits allotted to enterprises had nothing to do with the accumulation and propagation of fixed assets. It encourages enterprises to make self-improvements and restrain their own behavior spontaneously, and generates an internal strength which is consistent with the interest of their own long-term development, and minimizes their urge to pursue short-term profit.

With the kind of benign cycle just described, the enterprise's consumption funds will not be inflated, because the system of separate accounting of funds ensures that there must be accumulation before there can be consumption, and the level of consumption rises with the level of accumulation. The advantage of this system is that it does not repress the workers' desire to improve their standard of living, but it helps them realize clearly that if more enterprise funds are used to develop production today, they will be able to earn more tomorrow, and their desire to consume more in turn gives momentum to the development of enterprise production, which makes enterprises assume more rational behavior.

Because enterprise retained profit is closely tied to the amount and the percentage of enterprise funds in the enterprise's total funds, it reduces the enterprises' urge to rely on state investments for their development. It encourages enterprises to rely on themselves, instead of the government, to raise funds, and encourages them to reinvest their own funds.

3. It reinforces the workers' consciousness as their own masters, and helps to unite the management and the workers. In the allocation of bonuses out of enterprise funds, the system of separate accounting must consider the contribution of the workers to the generation of enterprise funds during that year and in past years. This kind of long-term consideration puts the personal benefits of the workers and the long-term development of an enterprise in the same boat, which is one way to tie the workers' role as masters to their duties at work. This remedies the condition where the workers have no long-term interest in the enterprise, and the enterprise's fund accumulation is of no interest to the workers. It entices the workers to work harder, for their own benefit, and as a result, they and the management share the same goal of working for the long-term development of the enterprise, and it further reinforces their consciousness of being masters.

At the same time, the system of separate accounting also eliminates the practice of "eating out of the same pot" in utilizing funds. It fosters a stronger concept of funds among the managers and the workers, and encourages more efficient use and management of funds.

4. The system facilitates enterprise infiltration and merger. Under the separate accounting system, the amount of enterprise funds and the percentage they comprise in the enterprise's total funds mark the achievement of the enterprise, and they are also the objective standard and basis of the worker's assessment of whether the management should be rewarded or penalized. If the enterprise is losing money, and if its enterprise funds show a deficit after all deductions, at below a certain point, the manager's right to operate the enterprise will be revoked, and another contractor may take over (but the enterprise retains its status as a legal entity,) or it can merge with another enterprise (thus losing its legal status,) and its duty to generate profit for the state, and its debts, will be assumed by the other contractor or the new enterprise after the merger. This solves the problem of losses or bankruptcy facing enterprises under the people's ownership system.

12986

Solution Sought for Beijing Municipality Housing Problems

40060313 Beijing JINGJI RIBAO in Chinese
22 May 88 p 2

[Article by Xiang Danping [7309 0030 1627] and Tang Weidong [0781 5898 2639]]

[Text] On 14 July 1983, the CCP Central Committee and the State Council made the following demand in their official reply regarding the "Beijing Municipality Overall Construction Plan": "We must continue to pay attention to housing construction. On the basis of strict control of the city population, the problem of homeless families and families with severe housing problems should be basically resolved by 1990."

It has been five years since the Central Committee's directive, and according to data of the Beijing Bureau of Statistics, new housing built in Beijing Municipality from 1979 to 1986 totaled 34,360,000 square meters, 2.42 million meters more than the total area of new housing built during the 30-year period from 1949 to 1978, while the average per capita living space rose from 4.55 square meters in 1949 to 6.46 square meters in 1986, an increase of 42 percent. The growth rate of housing has already surpassed the population growth rate. Beijing's housing increased 87.7 percent from 1978 to the end of 1986, while the population increased only 22.2 percent. In recent years, the Beijing Municipal Government has annually invested nearly \$1 billion in housing, and the area of completed housing construction has exceeded 4.3 million square meters. This kind of large-scale housing construction is unprecedented.

"The nation has invested \$1 billion annually, but has bought only dissatisfaction." Although the Beijing Municipal Government has made a tremendous effort to solve the housing problem, the masses are still dissatisfied. What is the cause of this dissatisfaction?

The Disturbing Plight of Families With Housing Problems

If the housing problem is the chief problem of Beijing residents, the focus of the city housing problem is families with severe housing difficulties.

According to a survey of 1,230,000 Beijing households (approximately $\frac{3}{4}$ of the total number of Beijing households) conducted at the time of the general survey of city and town dwellings at the end of 1985, there were 301,967 families with some kind of housing problem (including homelessness, inconvenient living conditions, overcrowded housing and the like), accounting for 24.4 percent of the households surveyed. Of these, 67,512 families had severe housing difficulties, such as homelessness, three generations occupying a single room, two couples occupying a single room, or overcrowded housing with less than 2 square meters of living space per person. These households account for 5.5 percent of the total number surveyed. It can be inferred from this that there are about 400,000 households in Beijing Municipality with housing problems, accounting for about $\frac{1}{4}$ of the total number of city and township residents, and of these, from 90,000 to 100,000 households have severe housing problems, accounting for about $\frac{1}{4}$ of the households with housing problems.

According to a special survey, completed August 1987, of households with severe housing problems within the system comprising the various wards, counties, bureaus, and corporations subordinate to Beijing Municipality, there were a total of 119,005 households with severe housing problems in Beijing Municipality, accounting for 6.6 percent of the total number of households in the municipality. These households consist of 474,517 members, accounting for 8 percent of the total number of residents of the municipality. One engineer's family of five is crowded into a single 12-square-meter room, and four of the family members have to sleep in one bed all year round. An ex-soldier's family of three is squeezed into a make-shift 5-square-meter room, going through life in a Beijing "rabbit hutch."

Even though \$1 billion is spent annually to build more and more housing, there is no decrease in the number of households with severe housing problems; on the contrary, the number increases by nearly 20,000 every two years. What has become of all the newly-built housing?

An Invisible "Black Hole" Is the Flaw of the Housing System

For over thirty years, the nation has consistently used the method of unified construction, allotment, and monthly rent payment by the renter. The house property management situation in Beijing Municipality is unchangingly

monopolistic (government-run), a low-rent system (not an exchange of equal values), and impoverished (dependent on subsidies for its day-to-day operation). Under this kind of low-rent, high-welfare housing allotment system, which has been in continuous operation for 30 years, housing investment can't make ends meet, "the rent isn't enough to live on", and housing allocation is unequal, forming a vicious cycle, and ultimately creating more and more households with housing problems.

According to the statistics of concerned departments, the current average monthly rent is \$0.13 per square meter, accounting for only 1-2 percent of a resident family's expenditure. In actuality, the state provides both wages and housing, and housing construction has become a pure welfare service. The government must both subsidize the cost of repairing old housing and also invest more money to build new housing, while residents can rent an additional square meter of housing for only the price of two or three popsicles. Naturally, homeless families request housing allocations, households with adequate housing request still further expansion, and households with more-than-adequate housing are unwilling to give any of it up. As a result, the disparity between supply and demand of housing has long gone unresolved, and attempts to eradicate the unhealthy tendency in housing allocation have repeatedly failed, while the government's fiscal burden grows heavier day by day. The surviving family of a deceased high-level cadre which already has 60 square meters of living space per person has requested an additional room for the family's three-year-old child. A unit's new building has six vacant apartments, all of them kept vacant in absentia by a person or related unit. On the other hand, among the nearly 120,000 families with severe housing problems, there are 37,647 young "homeless newlywed" families, accounting for 31.6 percent of the total number of families with severe housing problems. Additionally, there are 30,267 households in which "parents and 18-year-old children occupy the same room, or 18-year-old siblings of the opposite sex occupy the same room", accounting for 25.4 percent of households with severe housing problems.

In addition, unit ownership of housing has caused unequal allocation opportunity. Large enterprises and organizations have a lot of money and means, and can therefore build a lot of housing, while small enterprises and organizations lack money and authority, and so naturally are often at a disadvantage. Units which have attained or surpassed the city's average per person housing standards apply for further excess housing construction, while some poor units are unable to resolve even the severe housing problems of their system.

The inequality of hardship and ease is the result of flaws in the housing allocation system. We must reduce the housing disparity as much as possible, resolve the issue of households with severe housing problems, and put an

end to the phenomenon of "much new housing, accompanied by many households with housing problems." What method can be used to resolve these difficulties?

Reform of the Housing System Is the Only Way

In a "Government Work Report" at the Seventh National People's Congress, Premier Li Peng pointed out that "we will accelerate reform of the housing systems of cities and townships, especially large and medium-sized cities, and gradually implement commercialization of housing. Along with reform of the housing system, we will develop the real estate market, and implement compensated transfer of land use rights."

The practice of such cities as Yantai, Bengbu, Shekou, Shanghai, and Chongqing also proves that there is still a way to solve the problem of "the city investing \$1 billion and buying the dissatisfaction of the masses"; namely, break the big housing allocation "rice pot" which has existed for a long time, first raising rent, and finally selling housing to individuals. People pay a small amount of money for a small amount of living space and a large amount of money for a large amount of living space, and no one gets a free ride. In this way, commercialization reform is resolutely carried out in the housing system.

In view of the present situation in Beijing Municipality, with its 400,000 households with housing problems, including 120,000 households with severe housing problems, I have consulted the opinions of various concerned scholars, and believe that the focus of reform should be on solving the housing problems of these households. Since less than 20 percent of public housing is managed by the city housing management department, and over 80 percent of housing is managed by the various units themselves, a foothold should first be established in these units and systems, with each unit solving the housing problems of its own families. Responsibilities must be clarified, and contracts must be implemented to divide the work, as enterprises implement production management contracted responsibility systems. It is unacceptable for units to wait passively with outstretched hands. Secondly, with regard to the standard for resolving problems, in view of the levels of Guangzhou and Shanghai, combined with Beijing's housing construction level and the average per person living space in recent years, it is appropriate to set the standard at 6-8 square meters per person. Thirdly, the focus of resolving hardships should be on the resolution of the housing problems of the young. In a survey of households with severe housing problems, "homeless newlyweds, parents occupying the same room with eighteen-year-old children, siblings over eighteen occupying the same room, three generations occupying the same room, and two couples occupying the same room" account for over 70 percent of all households with severe housing problems, or about 85,000 households. Finally, with regard to the time period for the resolution of the problem, according to the above standards, about 2-2.7

million square meters of newly-constructed housing will be needed, so that, in order to resolve the problem in four years, 400,000-700,000 square meters of housing would have to be provided annually, accounting for 20-35 percent of the city housing completed every year. Therefore, setting the problem resolution time at 3-5 years is advantageous from the standpoint of stressing problem resolution. If this is handled properly, even severe housing problems which have not been focused upon previously can be resolved.

The specific method for resolving the housing problem is as follows:

1. Implement overall planning, bringing the housing used for resolving the problem into line with the housing construction plan, and treat it as a special item based on a certain percentage (accounting for about 25-35 percent of the annual completed housing area).
2. Adjust policy, raise funds by various means, and actively support the construction of housing, in order to resolve the housing problem. For example, give priority to arranging funds for housing construction aimed at resolving the housing problem; increase collection of excess housing construction fees and use them to construct housing aimed at resolving the housing problem; organize housing cooperatives; and have units with no independent housing construction capability organize individually with households with severe housing problems to implement jointly-financed housing construction.
3. Starting from reality, remodel delapidated, dangerous housing, and sell or rent housing at preferential prices or standard rent.
4. Construct, in a planned way, a number of apartments for young people, arranging that 15-20 percent of annual housing construction is of one-room housing; funds can be raised through various channels.
5. Adopt a policy of giving priority to allocation of housing to households with severe housing problems. It should be stipulated that all units with newly-constructed or newly-purchased housing must first allocate not less than 30 percent of it to households with severe housing problems.
6. Formulate unified housing standards, implement a progressive excess rent calculation method, and reduce the disparity of levels, at the same time smoothing out management relations, doing away with the current lack of coordination among the various departments responsible for managing city housing.

MINERAL RESOURCES

Report on Country's Gold Production

40060318 Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 21,
30 May 88 p 33

[Article by Yang Zheng [2799 1513]: "China's Gold Prospecting and Production"]

[Text] In the past few years, China has made important achievements in gold production and prospecting.

In 1987 China fulfilled the annual gold production plan 1 month ahead of schedule and set a record in output. Since the reform carried out 9 years ago, China's gold production has increased on the average of 10.4 percent each year, of which, mineral products has increased on the average of 11.7 percent each year.

Canzhuang of Zhaoyuan County of Shandong Province, one of China's famous gold producing areas, produced 30,000 liang of gold in 1987 and became the township with the highest annual gold output in China. Hexi mine of this town alone produced over 20,000 liang of gold in 1987. According to the introduction of the Yentai Gold Company, Linglong town and Luanjiahe township of Zhaoyuan County also produced over 20,000 liang of gold in 1987. These towns and townships have abundant deposits of gold which is of a relatively high grade.

Sichuan Province, a major gold producing area, witnessed a boom in gold production in 1987. Its total output increased 34.8 percent, a record high, as compared to that of 1986. This indicates that the gold production of Sichuan Province has entered a new historical period. In 1987, Baishui, Kangding, and Shui-luo gold mines of this province deepened enterprise reform, carried out and perfected various contracted economic responsibility systems, and increased gold production by 50 percent as compared to the previous year. They practiced closed-door management of mass gold mining and cracked down on gold smuggling activities. Their gold output exceeded 8,000 liang, equivalent to 158 percent of the annual plan.

At present, China has a large number of gold mines and gold mining ships and 23 counties that can produce over 20,000 liang of gold a year.

China's gold production technology has improved substantially. In the past 9 years, China has made 53 major achievements in scientific research and over 20 major achievements in technological renovation, and imported and popularized advanced prospecting, mining, and ore dressing technologies, thus increasing gold productivity.

According to the forecast of a local gold production department, it is a foregone conclusion that the norm set in the gold deposit verification plan for the "Seventh

5-year Plan" period will be overfulfilled because 60 percent of it has already been fulfilled. Nineteen eighty seven is a year in which China verified most gold deposits—as many as 74 locations. Henan Province newly discovered a number of gold mines in the Songxian area—another area rich in gold. Muping and Pingdu of Shandong Province, western Xinjiang and Yaoan of Yunnan Province also discovered some large gold deposits. The proven deposits of some existing gold mines also increased in 1987. Gold mines in eastern Shandong, southwestern Guizhou, the Xiaoqinling area, western Guangdong, and Songpan of Sichuan all have large deposits.

According to a forecast based on the findings of general mineral resource surveys carried out in recent years, Altay Prefecture in the northern part of Xinjiang may have over 100 tons of gold deposits. Over 300 locations have been marked for the anomaly of gold and many other elements that are found with gold, of which, about 30 locations are ready for verification in the near future. Another 35 locations have been found or proven to have gold-bearing veins, of which 18 have great future for prospecting. In addition, three gold deposits have been found. At present, five out of six existing gold mines of Xinjiang Province are located in Altay Prefecture which will become one of China's major gold production bases. Over 1,000 geologists will enter the Altai mountain area this year.

Heilongjiang Province, another major gold producing province of China, overfulfilled annual gold deposit verification plan by 19 percent in 1987. This province formed a leading group for gold production, headed by An Zhendong [1344 2182 2639], deputy mayor, and staffed by leaders of provincial planning and economic commissions, geological bureau, and gold company.

After over 3 years of prospecting, prospectors of the Shaanxi Provincial Geological Bureau found two large alluvial gold deposits around Lueyang of Shaanxi in the upper reach of the Jialing River. These two sections of alluvial gold deposits are formed by river beds and alluvial flats. The ore body is over 40 kilometers long and 100 meters wide on the average. It is large, well connected and thick from one end to another. The ores are of a high grade and good color, and are suitable for dredging. Currently, the provincial gold production company and the local government are preparing to build two gold-mining dredges.

Recently, Dongtongyu gold mine of Shaanxi Province officially began production. Dongtongyu gold mine, which is located in Lijiachun township of Tongguan County, has abundant deposits of high-grade gold. It has been built into an integrated complex for gold mining and ore dressing capable of processing 200 tons of gold ore every day.

FOREIGN TRADE, INVESTMENT

Country's Debt Repayment Ability in 1990's Assessed

40060306 Shanghai SHIJIE JINGJI DAOBAO in Chinese 23 May 88 p 6

[Article by Zhang Shubao [1728 2885 1405] of Fudan University: "Can China Handle the Peak of Debt Repayment in the 1990's? If Nothing Goes Wrong, China Will Not be Bugged Down in the Crisis of Foreign Debt"]

[Text] Driven by the policy of opening up to the outside world, China has in recent years hastened its steps in borrowing from foreign countries and broadened the scale of foreign debt. It is reported that by the end of 1986 the total amount of China's foreign debt reached \$20.6 billion, of which \$7.6 billion were long-term low-interest loans borrowed by the state; and that in 1987 China continued to borrow more than it paid back, resulting in another substantial increase in the total amount of foreign debt. It is anticipated that in the mid 1990's China will face the peak of capital and interest payments on foreign debt.

In light of the foreign debt crises that broke out in developing countries in 1982, many questions have been raised about the peak period of debt repayment which China will have to face. Will China follow the same old disastrous road taken by those developing countries which have borrowed too much from foreign countries and are unable to repay their foreign debt? Can China properly handle the peak of debt repayment in the mid 1990's?

To judge whether or not the burden of debt payment is heavy on a country, an important criterion is the calculation of debt repayment rate, namely the ratio of the total amount of capital and interest this country paid in foreign debt to the total amount of foreign exchange it earned from commodity and labor exports during the same year. A general rule of thumb accepted by most countries is that debt repayment rate should not exceed 20 percent. It is reported that in the 1980's China's debt repayment rate averages only 8 to 10 percent and once reached 13 percent in the highest year. Although it has borrowed more than it has paid back during this period, China is still far from the alarming point. It is estimated that China's average debt repayment rate may increase to 13 to 15 percent in the early 1990's and 17 to 19 percent in the mid 1990's. This may be a noteworthy issue but there is no real danger involved.

An important factor affecting debt repayment rate is debt repayment scale which is determined by the accumulative total of loans, the average interest rate and length of loans, and changes in foreign exchange rate. According to estimates, in the 1980's China's total foreign debt averages between \$15 and \$20 billion, about \$20 per person, which is low by international standard; in the early 1990's, China's total foreign debt may

average \$25 to \$30 billion, about \$30 per person, which is not high; in the mid 1990's, China's average total of foreign debt may increase to \$35 to \$40 billion, about \$40 per person, at most. Thanks to long-term political stability, a correct economic development strategy, fast economic growth, and a high international credit line, it is not difficult for China to borrow a considerable amount of construction fund from other countries. As foreign loan is "blood transfusion" to the national economy and capital and interest payment on foreign loan is "drawing blood" from the national economy, there should be a proper ratio between the two. There are of course certain risks involved in using foreign loans. However, if the state tightens macroeconomic control and management, most projects using foreign loans are linked to the preparation of productive construction projects, the comprehensive economic returns of foreign loans are relatively high, and new foreign technology and equipment can be brought in along with the planned utilization of foreign funds, foreign loans can speed up the rational readjustment of China's industrial structure and bring about rapid increases in the total volume of foreign trade and export. Advantages outweigh disadvantages in further enlarging the scale of foreign debt for it is an important measure for China to implement the development strategy of export-oriented economy. When it comes to foreign loans, China uses GNP as its basis and the total volume of foreign trade and export as its reference guide and ensures that it lives up to the promise that China can and will always repay all its debt. Among various types of loans, China intentionally chose loans with a lower rate and longer term. It is estimated that this type of long-term, low-interest loans generally accounts for 30 to 40 percent of the total amount of all loans, their average interest rate is 7 to 8 percent, and their average length is 5 to 7 years.

Another important factor affecting debt repayment rate is the total amount of foreign exchange earned from annual commodity and labor exports for it is the main source of foreign exchange used to pay capital and interest on foreign loans and the main way to increase the state's ability to pay debt. China has great potential in foreign trade and export, and it needs continuous development. Along with the deepening of the reform of China's foreign trade system and the implementation of the development strategy of export-oriented economy in coastal areas, China will gradually participate in international division of labor and cooperation and join the great international circle, and China's export dependence rate, namely the percentage of exports in GNP, will continue to increase. In 1987 the total volume of China's exports broke the major record of \$30 billion and reached \$34.603 billion, an increase of \$7.6 billion over the previous year and an end to years of stagnation in China's exports. China's foreign trade and exports are expected to improve continuously in the early 1990's. According to optimistic estimates, in the mid 1990's after China enters the peak period of capital and interest payment on foreign loans and has to pay an average of \$12 and \$13 billion a year in foreign debt, there still is a great possibility that China's total exports may reach as high as \$60 to 70 billion. If so, the

debt repayment rate will remain between 17 and 19 percent and if nothing goes wrong, China will not be bogged down in the crisis of foreign debt.

12302

Trade With South Korea Part of Coastal Development Strategy

40060423 Beijing JINGJI RIBAO in Chinese
18 May 88 p 2

[Article by Liu Xiaohua [2692 1321 5478]: "Two Problems Needing Attention in Implementation of Coastal Development Strategy"]

[Text] The strategy for economic development of the coastal area has entered the implementation stage. A review of both the international and the domestic economic situations shows two problems in need of attention at the present time.

The first is the need to pluck up courage and hasten the pace. Just what are the economic trends in the world today? How much did the October 1987 stock market slump affect production? Opinions differ both in China and abroad, and quite a few comrades also have misgivings. Nevertheless, a cold analysis of the situation shows that Japan is currently shifting its interest in overseas investment toward Southeast Asia. In addition, Japan has a better understanding of the investment climate in the Chinese mainland as a result of several years of improvements, and it has indicated a desire to take real steps toward increasing investment in China. Singapore has already openly stated that it wants to transfer a number of industrial plants to China, and Taiwan compatriots have invested in the mainland via various channels, both Guangdong and Fujian provinces having absorbed some of this investment, and Xiamen continuing to be a Taiwan investment zone. South Korea has also demonstrated a strong interest in investment in China. These situations convey the following signals: Favorable circumstances exist for an expansion of investment from overseas to develop labor intensive and both labor and technology intensive products for export. Nevertheless, it should be realized that these favorable circumstances are fleeting. If we miss these opportunities again, and the gap with developed countries gets wider, things will be more difficult in the future. Therefore, the prime problem today is whether we dare to move on to the world economic stage and gain experiences from practice.

Second is the need to be realistic and to do a solid job.

Implementation of the coastal development strategy is not just an idea that someone conjured out of thin air. It grew out of a summarization of basic experiences gained during the past 9 years in China's opening to the outside world. It seeks to link organically an opening of the coastal region and the development of the vast interior of the country. This is a strategic action that both takes the

overall situation into account and provides long term returns. China's coastal region stretches for several thousand kilometers from north to south, exhibiting great differences in terms of geography, the economy and people. In implementation of the coastal development strategy, separate areas will have to decide on the basis of their own circumstances what their strategic goals should be, their own plans for industries, what products they will produce, and how they will conduct foreign trade in order to make the most of the advantages that their local economies offer. In Guangdong, Fujian and Hainan provinces, light industry, food products, and household electrical appliances might be the leading industries, with emphasis being placed on the development of economic relations with Hong Kong and Macao, Taiwan, and southeast Asia. In the east China area consisting of Shanghai, Jiangsu, and Zhejiang, the leading industries might be the textile industry, electromechanical industries, instrument manufacturing industries, and chemical industries, emphasis being given to cooperation with developed countries in Europe and the Americas. In the Bohai area composed of the Liaodong Peninsula, the Shandong Promontory, Tianjin, and Hebei, the leading industries might be heavy chemicals, machinery, building materials, and energy, emphasis being placed on the development of economic and trade relations with Japan, South Korea, the USSR, and eastern European countries. Methods of economic cooperation should be flexible, varied, and not stereotyped.

Mechanical and rigid concepts should not be applied to "putting both ends abroad" whereby production begins by importing raw materials and ends by exporting finished products, much less should there be a headlong rush into mass action that flies in the face of realities. Currently, coastal jurisdictions are in process of doing further planning, formulating policies, rules, and regulations, training personnel, and organizing administration and command centers to improve operating efficiency and to improve the investment climate. This is a prerequisite for attracting foreign investment and importing technology. However, strictly speaking, implementing the coastal development strategy also requires opening up avenues into international markets, including obtaining intelligence information, providing publicity and advertising, setting up a sales corps and network, etc. The southern region has made some breakthroughs in these regards through contacts with Hong Kong and Macao, and with overseas Chinese. For other places, particularly places north of the Changjiang, some further arduous pioneering work will have to be done. People are pinning their hopes on each jurisdiction doing its own creative pioneering in moving on to the world economic stage.

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Wenbo (3769 2429 3134), and Zheng Zexiang (6774 3419 7449): "The Relationship Between Agriculture and Foreign Trade in China"]

[Text] Since the 3rd Plenary Session of the 11th Party Central Committee, China's economy is no longer closed. Foreign trade has been playing an increasingly important function in our national economy. Increasing amounts of foreign exchange are needed to keep the stable and continuous development of the economy. However, because of the low level of our overall economy and the small scale of our exports, especially the export of industrial goods that are manufactured mainly with non-agricultural raw materials, we cannot create significant amounts of foreign exchange. Shortage of foreign exchange has become an important constraint on the development of our national economy.

A possible way of solving the problem of foreign exchange shortage is to base on China's reality, make the most of the superiority of traditional agriculture in foreign trade, actively develop foreign exchange-earning agriculture, and, by means of foreign trade, strengthen the staying power of agriculture and promote the continuous prosperity of the rural economy.

I. The Strategic Position, Functions and Characteristics of Agriculture in Foreign Trade

1. As the development of the international economy shows, agriculture is closely related to foreign trade in developing countries, and a considerable portion of foreign exchange is earned from agricultural export and departments related to it. In the 1960s, agricultural export made up as much as 50 percent of the total export of low-income and developing countries. In the 1980s, the proportion is still as high as one-third. Changes in the international market heavily affect agricultural development, and the quality of agricultural production is also related to the steady development of the national economy. China is a developing country in the initial stage of socialism. Characteristics such as a backward economy and an unreasonable industrial structure also exist in this country. In China's foreign trade, the function of agriculture basically follows a road similar to that in the international economy.

1) Agriculture and export are very closely related. In the 37 years prior to 1986, the relative coefficient between agricultural production and export was 0.96. The performance of agriculture directly affects that of foreign trade.

2) Agriculture is a major source of foreign exchange earning in China. In the 37 years prior to 1986, the accumulated value of China's exports was more than U.S. \$259 billion, of which the export of agricultural products and by-products and their processed products was worth more than U.S. \$138 billion, or 53.3 percent of the total value of export. In particular, the export of

processed agricultural products has been occupying a considerable position. From the 1950s to the 1980s it has always made up one-third of the total export.

3) The composition of agricultural exports is gradually changing. The proportion of agricultural products and by-products is decreasing and that of processed products is increasing. With the improvement of technology in the processing of agricultural products and by-products, the value of exports of products processed from agricultural products has increased from U.S. \$1.830 billion in 1950 to U.S. \$8.472 billion in 1986, or an increase of 45.3 times. In the value of agricultural exports, the proportion of the export of agricultural products and by-products has dropped from 60 percent in the 1950s to 40 percent in the 1980s, whereas the proportion of the export of processed products has increased from 40 percent to 60 percent. However, the export of agricultural products and by-products is still growing, from U.S. \$0.318 billion in 1950 to U.S. \$5.202 billion in 1986, or an increase of 15.4 times.

2. China is a major agrarian country. In 1986 she topped the world in the production of grains, cotton, rapeseed, pork, beef, and mutton. She ranked second in the production of peanuts and tea, third in soybeans, fourth in sugar cane, and among the first few countries in the production of many other agricultural products. The scale of production shows that China has considerable export strength over these products. However, China's large population and domestic consumption as well as low per capita agricultural resources for production have restricted the export of her agricultural primary products. These characteristics have led to several characteristics in China's agricultural export. 1) A large proportion of agricultural export is made possible by tightening domestic demand and squeezing from domestic consumption. China has a low rate of agricultural production. By 1986 the commodity rate was only 58 percent. Many agricultural products and by-products had to remain in the village to meet peasants' own consumption. At present the per capita consumption of major agricultural products, by-products, and processed products in China is still lower than the average world level.

2) We excel in quantity and do not consider cost before earning foreign exchange. On the one hand, due to low technological levels in production and processing, agricultural products and by-products for export cannot transform into high quality with additional value. Many products which can be raw materials for processing and final commodities can only be exported as unprocessed products. On the other hand, because of the shortage of foreign exchange, earning foreign exchange becomes the only target of export. In order to earn more foreign exchange, products are often exported at low prices. When the same quantity of products are exported, China earns far less foreign exchange than some other countries. For example, other countries earn 3 times as much foreign exchange than China with the same quantity of

vegetables; a ton of lychees brings U.S. \$1802 to Thailand and only U.S. \$1126 to China; and a ton of rice brings to Thailand U.S. \$520 and only U.S. \$312 to China. Similar phenomena abound.

3) Exports are passive and depends on what is available. They remain in the backward modes of "guerilla warfare" and "sparrow warfare". In the past, the production of agricultural products and by-products lacked an exported-oriented strategy that take an active role to connect production with the international market. Production was aimed at meeting domestic demand. to the producer, the export of agricultural products and by-products became a disposable activity that was completely enforced by the foreign trade department. At the same time, scattered distribution of production resulted in an incomplete system of export of agricultural products and by-products. Small scale production can only ensure small supplies. Small quantities of supplies with varying quality from individual farms cannot guarantee the quantity and quality of large scale export.

4) Agriculture itself consumes some foreign exchange. In some developing countries, agricultural products and by-products are exported mainly to earn foreign exchange and then to import industrial equipment and technology as well as material resources needed for their industrial development. In China the pattern is basically similar to that of other developing countries, but there are differences too. As a major agrarian country, China needs large quantities of agricultural means of production to develop her agriculture. Due to her low level of industrialization and backward technology, China cannot produce all the agricultural material resources to meet domestic demand. Each year, China has to import some agricultural material resources. Between 1950 and 1986 the total value of agricultural material resources China imported was U.S. \$17 billion, or 12 percent of the total value of agricultural export during the same period. Since the production of agricultural products and by-products cannot satisfy all domestic demand, and certain varieties are lacking, China has to import some agricultural products and by-products. Between 1950 and 1986 China imported grains, oil, local products, poultry, and other agricultural products at the total value of U.S. \$73 billion. If imported textiles goods are included, the total value would be U.S. \$93 billion, or two-thirds of the total value of agricultural products during the same period. Of this total value, the value of imported grains, cotton, sugar and edible vegetable oil alone reached U.S. \$39.6 billion. If we look at agricultural primary products alone, import exceeded export. Of course, the situation varied each year. In the early 1980s, the import of major agricultural products such as grains, cotton, oil, and sugar exceeded their export, but in recent years, the trend has been reversed.

3. In recent years, China's opening up to the outside and the reform of her economic structure have strengthened the influence of foreign trade on agricultural production. In particular, it is an objective requirement to develop

foreign exchange earning agriculture in order to develop the rural commodity economy. First, information of the international market gradually enters agricultural production. Production and processing are organized according to the demands of the international market. The road of trade, industry and agriculture is taken. Foreign trade gives commodity production the impetus to develop in a larger scope and at a higher level. Second, advanced technology is being introduced to improve agricultural production techniques. Some of the technology introduced has proved enormous economic benefits. For example, in the last two years several hundreds of varieties of agriculture, forestry, pastoral farming, and fishing have been introduced to the Pearl River delta economic zone from other countries as well as other parts of China. Advanced production line, production equipment and technology have been introduced to this region, such as the production line for quality chicken and pigs with lean meat, milk production line, and factory production line for flowers and vegetables. Enterprises have been established for the storage, freezing and processing of agricultural products. In this way, there has been systematic reform prior to production, in production, and after production, and in variety, production and processing. In 1986 the export base alone earned U.S. \$0.132 billion, or 16.4 percent of the foreign exchange earned by the entire economic zone. Third, the approach of horizontal comparison has led people to extend their view from agricultural administration in China to outside of China. Cross-national influence is increasingly strong. Fourth, the traditional superiority in agricultural production has become an important means of exchange with the outside. Not only have various kinds of agricultural groups been sent to some developing countries as technical advisors to help to develop the agriculture there, China has also started joint agricultural projects abroad. Fifth, competition in different segments of foreign trade has stimulated farmers to have higher expectations for the prices of agricultural products and by-products. Also, with market fluctuations, the farmers are psychologically better prepared for risks in commodity production.

II. Difficulties and Contradictions

1. Production and circulation are disconnected from each other and conflict of interest between the two is increasingly obvious. For a long time, under the influence of traditional economic management, there has been no direct connection between production and foreign trade. Basically farmers are only concerned with production and have no market concept; and foreign trade departments are only concerned with buying and have no concept of production. When the profits are not evenly divided between the two, farmers tend to be reluctant to organize production according to request. In recent years production has been calculated with the family as the unit instead of with the production team as the unit. Therefore farmers have become more profit-minded. They are more interested in making money for

themselves than earning foreign exchange for the country. Therefore goods that should be exported are sold in the domestic market. On the other hand, foreign trade departments are only concerned about their own interest. They are unwilling to share production risks with the farmers but expect the latter to make contributions. They organize goods for export in a hurry. When goods are needed for export these departments rush the farmers, but when goods are not needed they just send the farmers away. Such Phenomena are recurrent.

2. The staying power of agricultural production is not strong enough and there is a shortage of goods for export. At present, China's agriculture relies on the individual farm unit. It usually operates on a small scale, with a low labor productivity, and a low ability to accumulate capital. There is a sharp contradiction between the small farm and the socialized mass market. meanwhile, non-agricultural activities are mushrooming in the village. Farmers make relatively less profits from agricultural production and so transfer their limited money and material resources to more profitable non-agricultural activities. This has weakened the staying power of agricultural development and brought unfavorable influence to export-oriented agriculture.

3. Among exported commodities, there are large proportions of primary, medium and lower grade, and traditional products, and products for export to Hong Kong and Macao. For a considerable period of time in the past, farmers lacked the initiative to increase the variety and improve the quality of their products. In addition, there have been problems in the system of agricultural export. (For example, according to China's present taxation system, the more procedures in the processing of goods for export, the higher the taxes.) This has kept export-oriented agricultural products and by-products from rising in processing value.

4. In the international market the prices of primary products are going down and competition is keen; trade protectionism is on the rise. Both are unfavorable to China's effort to extend agricultural export. According to data provided by the World Bank, into the 1980s the drop in the prices of primary products is increasingly obvious. In 1981-85 food prices have been dropping at the average rate of 3.7 percent a year, and those of non-edible agricultural products have been dropping at the rate of 6.1 percent a year. Trade protectionism in the international market has been increasingly serious. On the one hand, some agriculturally-developed western countries try hard to buy domestic agricultural products and by-products at prices higher than those in the international market in order to guarantee their farmers' incomes and limit the importation of foreign agricultural products and by-products. On the other hand, they control prices in the international market and sell their agricultural products and by-products at low prices. In addition, with more variety and a higher quality, their agricultural products and by-products are more competitive and become obstacles to the agricultural export of developing countries.

5. The increasing demand from the domestic market has made competition with foreign trade for the goods more pronounced. Since the 3rd Plenary Session of the 11th CPC Central Committee, the negligence for the people's livelihood has been changed, and the people's consumption level has been rising. This has certainly promoted the prosperity of the domestic market. However, it has also exerted pressure on the attempt to expand export. Policy to depress domestic consumption in favor of export and foreign exchange earning would meet a great deal of difficulty.

6. Cost of agricultural production has been rising and competitive purchasing at raised prices have increased the cost of exporting agricultural products and by-products. State financial subsidy has become increasingly heavy and it is difficult to go on like this. In the last few years, with the rising prices of agricultural means of production and farmers' wages, the cost of agricultural production has been increasing. As a result, the prices of agricultural products have been going up. Additional factors like price regulation in China and competition between products have also increased the costs of foreign exchange earning export. With the rising costs of changing for foreign exchange, foreign trade deficit becomes increasingly serious, and the state's financial burden is heavier.

III. A Few Measures and Suggestions

To deal with the relationship between agriculture and foreign trade, we must base on China's characteristics to process agricultural products according to international market criteria, actively participate in international exchange and competition, equip agriculture with modern technology and management methods, and revitalize foreign exchange earning agriculture. This is an important link to increase China's ability to export and earn foreign exchange. It also leads China toward agricultural modernization. There is great significance in the introduction of high quality foreign varieties, advanced equipment, processing technology and management methods through the channel of foreign trade. After digesting and recreating from such introduced items, the level of agricultural production will go up. To do this work well, we must attach great importance to developing foreign exchange earning agriculture and place it in a strategic position. We should also adopt effective measures in the following aspects.

1. Solve the contradictions by making the division of profits reasonable. To develop foreign exchange earnings with agriculture, neither the method of pure administrative orders nor that of scattered farmholds will work. Administrative order cannot bring out the producer's subjective dynamism. They neglect the material interests of the region, the collective, and the individual and so production initiative is not high. The pattern of scattered farmholds lack the necessary overall management and guidance. Production is irrational and cannot guarantee stable supplies of products. The interest of the state will

be weakened. A correct and feasible method is, under necessary overall state guidance and based on the principle of reasonable distribution of profits, to bring out the initiative of all parties concerned and revitalize agricultural export.

1) Rationalize the division of profits from the export of processed products and that of raw materials. We should develop for export the products that are processed from agricultural products and by-products. Such processed products have a high economic value and require much labor. The state should formulate necessary favorable policies to encourage the development of product processing. The state should also change the unreasonable policy of imposing low taxes on the export of agricultural raw materials and heavy taxes on processed agricultural products. If the short-term goal is considered, the criterion should be to earn more foreign exchange. For the same quantities of agricultural products and by-products, if the processed products cannot earn more foreign exchange than the unprocessed ones, then we should encourage the export of unprocessed products. If the long-term goal is considered, we should first export unprocessed products and then gradually export more processed products and gain entry to the international market.

2) Rationalize the division of profits between production and circulation. This requires a better relationship between foreign exchange earning and foreign exchange consumption. The party that earns more foreign exchange should keep more of it, and the one that earns less should keep less of it. At present production and circulation are still not unified. Producers should make life easier for foreign trade departments by supplying the agreed quantities of goods of an agreed quality on time. Foreign trade departments should provide production information, technological guidance, and production service to producers. Both parties should unite in their dealings with the outside and spend less energy on dealing with each other.

3) Rationalize the profits divided between the state, the collective, and the individual. The main reason for developing agricultural export should be to earn precious foreign exchange for the state for use on the national economy, and not on consumption. Profits retained by the localities and collective should be used mainly to help the producers to raise their technological level and expand production ability. However, producers must be allowed to make profits too.

4) While rationalizing the division of profits, risks should be shared. There are risks in developing foreign exchange earning agriculture. At present, the family is still the key unit in the production system. The state should formulate a series of protection measures and set up a risk insurance system. Futures trade should be gradually developed in order that the producers can avoid risking bankruptcy alone in case of international market fluctuations. A feasible approach is to aim at the

uniformity of the foreign and the domestic markets. If foreign trade does not work, we should turn to domestic trade, so that the producer's initiative in developing the commodity economy is maintained. Of course, we should prevent the tendency in which profits are shared by all but risks are shouldered by the state alone. Profits should be evenly divided between the state, the collective, and the individual, and risks should be shared by all three as well.

5) Set up an effective mechanism for overall coordination. Reasonable division of profits among all parties will be made possible only with a necessary mechanism to coordinate. The main responsibilities of the overall coordinative mechanism are to deal with the contradictions, coordinate the relationships, promote uniformity, and guarantee fairness. This body should be led by the general administrative department at the state level. Coordination meetings should be held to solve problems and propose development guidelines.

2. Develop production and improve the quality of products. One difference between foreign trade and domestic trade is products must meet the requirement of the international market and be competitive with other countries. Therefore we must set international standards as our own standard. On the basis of sufficient goods supply, we must be determined to develop new variety and raise the quality so as to develop in the direction of freshness, flexibility, quality, newness, and advancement.

1) Reform the mechanism of agricultural production, consolidate and develop the agricultural export base, and guarantee the growing supply of products for export. One difficulty facing China's agricultural export is insufficient staying power which in turn leads to difficulty in maintaining a steady growth. An effective means of solving this contradiction acceptable to farmers, so that both the individual's initiative and the superiority of the collective are mobilized and scattered village production will become appropriately large scale. At the same time, we should make the most of the function of the law of value to encourage all parties to increase investment in agriculture. In particular, a certain amount of funds should be allocated to support the development of an export-oriented production base and improve the external conditions for production. The question of agricultural backwardness can be fundamentally resolved only when a combined road of improved internal production operation and external environments is taken. The export-oriented production base can be set up in multiple forms. It should be independent and comprehensive, with a clear goal and combine production and marketing. In the development of export bases, we should consider from all aspects and choose the best sites. We should also transcend all boundaries so that new and old bases in the coastal region and the interior can coordinate with each other to bring out the best overall superiority.

2) Intensify technological reforms, actively introduce technology relevant to China's needs, and improve the variety and quality of the products. China's agricultural production is less technologically equipped than abroad. The agricultural export base has just started and still lags behind international standard. An imperative task in the development of agricultural export is to raise the technological level of agriculture through technological reforms. The development should be planned. Reform measures should be taken in order to gradually catch up with and surpass the advanced world level. In particular, priority should be given to the technological reform of agriculture in developed coastal areas so as to actively develop foreign exchange earning agriculture. A biological revolution in agriculture is an important link in raising the quality of and increasing new variety in China's agriculture. We should strengthen the research on and application of agricultural technology, work hard to train scientific and agricultural personnel in agriculture, and create a road which combines traditional agricultural and biological agriculture, organic agriculture and inorganic agriculture, and mechanized agriculture and labor-intensive agriculture.

3) Appropriately utilize foreign capital, develop new areas for joint agricultural ventures between China and other countries, and use foreign businessmen's technological, information, and marketing network to develop China's foreign exchange earning from agriculture. Of the foreign capital utilized at present, not much is spent on agriculture. Improvement should be made in this aspect. Some agriculturally developed countries possess advanced agricultural production technology and management. We should actively develop links with them or expand the scope of cooperation with them. We must create a favorable investment environment to encourage the inflow of foreign capital. Of course, we should borrow only a suitable amount of foreign loan and must consider our ability to pay back. While actively developing economic links with agriculturally developed countries, we can also expand our relationships with agriculturally insufficient but economically developed countries by carrying out cooperation in compensatory trade with them. In sum, there can be multiple forms with centralized management. We must avoid having too many bodies to deal with the outside without internal coordination.

4) Raise the deep processing value of agricultural products. According to relevant data, in the late 1980s and even 1990s primary products will grow at a slow rate in world trade. We must be strategically prepared for this. In the process of developing agricultural production, we should transfer part of the capital and manpower to the deep processing of agricultural products and by-products. While developing the export of traditional products, we must actively develop the export of non-traditional products so as to be prepared for future change in the international market.

3. Reform foreign trade and make the foreign trade system scientific. At present, the main problem in China's foreign trade system is that foreign trade units still eat from the state common pot and do not assume responsibility over their own profits and losses. To compete for products and market they buy them at raised prices and sell them at reduced prices. There is no overall control. This is unfavorable to the long-term and stable development of commodity export and must be reformed.

1) Strengthen the concept of service, raise the quality of service, and place the steady development of production in an appropriate position. Foreign trade departments must not be concerned with buying and exporting only, and neglect the steady development of agricultural production, or even encroach upon the interest of producers. Circulation and production should be combined into one. Foreign trade departments should try every means to provide good service to the producers, minimize the pressure on the producers, and get the most out of agricultural export.

2) Unify exports by building an agricultural export system according to regions. Whether in a capitalist country or socialist country, foreign trade is usually under strict management and dealing with the outside by multiple bodies in a country is not allowed. In China, dealing with the outside by multiple bodies in the country did happen before. The bodies did not coordinate with each other and benefits went to the outside. Such a foreign trade system with uncoordinated multiple bodies is a contradiction in the development of foreign exchange earning which must be resolved. One possible method is to use the tariff as a lever to regulate and strictly prohibit the multiple bodies from functioning. Uniform production and operation permits can be issued for export commodities. Meanwhile, based on differences in production conditions and natural environments of the regions, agricultural export systems should be developed with different regional characteristics so as to avoid the phenomenon of competing for goods, irrationally raising buying prices and reducing export prices.

3) The direction of foreign trade reform is to change from the purchase system to the agent system. The defect of the purchase system lies in eating from the state common pot, not assuming responsibility over one's own profits and losses, disconnection between production and circulation, and insufficient coordination. The agent system can compensate for these weaknesses. Under the system of export agent, foreign trade enterprises can be made to assume responsibility over their own profits and losses, pay attention to linkage with production, raise the economic results of export, and require less financial subsidy.

4. Control the demand and give priority to export. Since our economy is not adequately developed, too much demand will result in shortage of material resources.

Consequently, what should be exported is not exported but is used to meet domestic market demand. In the last few years, demand from the domestic market has been soaring. Not only is this unfavorable to market stability, inflation caused by too much demand is likely to appear. The entire commodity price scale will go up and the cost of foreign exchange earning export will rise too. Absence of appropriate control will further deepen the contradiction between internal and external trade, cause shortage of market supply and inability to guarantee goods for export.

1) Strategically establish the concept of emphasizing the importance of agricultural export and export as many quality goods as possible. As long as we can supply the goods and the international market has a demand for them, we must try to export them. At the policy level, we must stick to the favorable measures that encourage export.

2) Pay appropriate attention to the domestic market as well, prohibit competitive buying at raised prices, and guarantee supplies for both agricultural export and the people's daily needs.

3) Strictly control the increase in domestic demand and make demand and production adjust to each other. Policies must be formulated to make demand grow at a suitable rate. At the same time, farmers must be encouraged to raise the commodity rate and meet the needs of export and the urban population.

5. Open new channels to expand the export market. China is a major agrarian country with many favorable conditions for the development of agricultural production. The problem now is that the circulation in the domestic market is not smooth enough, the international market is not established for China. Therefore, development of production is restricted both horizontally and vertically. An effective means is urgently needed to resolve this contradiction.

1) Develop export channels on multiple fronts. While continuing to develop market connections with Europe, the United States, Japan, Hong Kong, and Macao, we should gradually strengthen trade connections with Eastern Europe, the Soviet Union, and Third World countries. We should use the favorable opportunity of opening up to the outside and join the keen competition in the international market, and through developing agricultural joint items, joint ventures, and individual proprietorships to sell products to the market abroad.

2) Diversify the goods for export. We must make full use of China's vast territory and climatic contrasts, actively improve the production structure, and try hard to increase the production of commodities that are suitable for export. While actively developing agricultural products, by-products, and their processed products that have

traditionally been earning a larger proportion of foreign exchange, we must also develop new agricultural resources and increase the varieties for export.

3) Make use of our large labor supply, and gradually develop the export of agricultural arts and handicrafts. There is a large surplus of village labor. If we can provide policy support, such as providing basic technical training, and collaborate with foreign countries to open up farms, there is potential in the export of labor. Both Pakistan and India earn far more income from labor service than China does. If China makes an effort, the result will be positive. On the other hand, China excels in many oriental arts and crafts. There is great potential in making good use of them to earn foreign exchange too.

'Two Track System' Thought Poor Remedy for Increasing Grain Shortage

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[Article by Grain Problem Unit, Economic Policy Research Center, Ministry of Agriculture, Animal Husbandry, and Fishery: "The Grain Shortage and Readjustment of Economic Policies—Thoughts on Several Basic Points Relating to China's Grain Problems"]

[Text]

I. Estimate of the Situation

1.1. Shortage has become the basic state of affairs in the relationship between grain supply and demand in China.

1.2. The main reason it is difficult to make an optimistic estimate about achieving substantial balance between supply and demand of grain is that the basic factors contributing to growth in demand are hard to control, while at the same time an improved outlook for a total supply that will be able to meet the rapidly increasing total demand is much more problematical. An intermediate to long-term view is that over time the pressures occasioned by a shortage of grain will gradually tend to increase. Therefore, tactical policy readjustments that take a shortening of the period of pressure as a base point for making decisions will hardly solve the grain problem being faced. It is necessary to make clear that an uncoordinated "gap" may occur between improvement of supply and increase in demand, and to use a strict rating of performance as a basis for substantial readjustments to the country's prevailing grain policy.

A. Brief Summary of the Grain Supply and Demand Situation Since 1978

1.3. China's grain consumption has exhibited a trend toward unremitting growth since 1978. Per capita grain consumption increased from 319 kilograms in 1978 to 387 kilograms in 1986, but supply fluctuated a great deal. In 4 of the 8 years, output exceeded increase in

consumption; for the other 4 years, output fell below the consumption curve. Using 1984 as the turning point for a change in the supply and demand picture, though the consumption curve was higher than the supply curve in 2 of the 6 years between 1978 and 1984 (in 1980 and 1981), supply was ample, nevertheless. The accumulated surplus from internal grain production alone reached 74.25 billion kilograms. In 1985, however, grain production declined from 407.3 billion to 379.1 billion kilograms, a decline totaling 28.2 billion kilograms, or 6.9 percent. This was 3 percentage points higher than the normal grain production cycle fluctuation maximum deviation value of 4 percent. During the same period, the consumption level continued to increase, reaching 395 billion and 410 billion kilograms respectively in 1985 and 1986. In 1987, the minimum requirement was for 420 billion kilograms. In 3 years time, total consumption had increased 50 billion kilograms, higher than output for the same 3 years by 15.9 billion, 18.4 billion and 21 billion kilograms respectively. The shortfall between supply and demand increased by an average 2.5 billion kilograms each year for a cumulative 3 year shortage of 55.3 billion kilograms.

1.4. The growing fluctuation of grain supply could scarcely keep pace with the high and ever increasing curve for grain consumption. Between 1977 and 1986, total supply increased from 304.75 billion to 391.1 billion kilograms, an average annual increase of 10.794 billion kilograms, or an average 3.17 percent speed of growth. Meanwhile, grain consumption rose from 298.5 billion to 410 billion kilograms, an annual rise of 13.940 billion kilograms, or an average 4.1 percent speed of growth. Consumption increased more rapidly than total supply. Two matters require explanation here. (1) The first is selection of the reporting period. A study of China's grain production cycle shows a complete cycle for grain fluctuations as usually being 4 years. The year 1978 was the beginning of a new cycle, and by 1986 and 1987, about 2 1/2 cycles had been completed. In addition, 1986 was a year when grain production rallied again, the extent of fluctuation being within normal value limits. A longer time period and more representative fluctuation values might more accurately portray the trend of change between supply and demand. (2) Most articles regard the growth in grain consumption during the past several years as abnormal, increasing by 15 billion kilograms annually. In fact, the role of abnormal factors accounts for no more than one-fifth of this growth. When the abnormal grain consumption growth period since 1984 is eliminated, and only the period from 1978 through 1983 is used, cumulative growth in consumption for this 5 year period is 60.5 billion jin, a 12.1 billion kilogram annual increase. Comparison of the 3 years since 1984 with the 5 years before 1984 shows a 60 billion kilogram increase for the 5 years before and a 50 billion kilogram increase for the 3 years after, just a single year's difference. Consequently, one cannot come to the rash conclusion that were abnormal circumstances to be ruled out, a balance between supply and demand could be assured.

B. Grain Demand Forecast

1.5. The key to forecasting supply and demand for the next 10 years or more lies in clearly understanding the effect on grain consumption of changes in income levels.

Particulars	Overall Average	Lowest Income House- hold	Low Income House- hold	Lower Interme- diate Income House- hold	Middle Income House- holds	Upper Interme- diate Income House- hold	High Income House- hold	Highest Income House- hold
Per Capita Living Expenditures (Yuan)	732	455.64	551.28	626.88	724.20	830.28	963.24	1,162.93
1985 Per Capita Grain Consumption (Kg)	131.16	125.47	128.22	127.34	130.41	133.21	139.20	147.14
1986 Per Capita Grain Consumption (Kg)	137.88	-	134.04	136.68	138	140.4	147.96	159.98

Note: 1985 figures based on "China Statistical Yearbook." Figures provided by State Statistical Bureau Urban Survey Team.

The State Statistical Bureau survey statistics tables show the following:

(1) For the 1,200 yuan and below income segment, marginal grain demand did not reach the turning point where incremental increase became incremental decrease. On the contrary, demand tended to strengthen. For the years 1985 and 1986, the difference in grain consumption between low income and intermediate income households was 2.19 and 3.96 kilograms respectively. However, the difference between intermediate income household and high income families widened to 8.79 and 9.96 kilograms.

(2) Intermediate income households are in the majority in China, a random sampling showing them to number 60 percent of the total. On the basis of the Sixth 5-Year Plan period annual 11.4 percent increase in per capita income spent for daily necessities, it will take 5 years for the expenditure by intermediate income households to reach 1,200 yuan. This is to say that the turning point in grain consumption for city and town residents will not occur until 1992.

(3) The standard of living of the country's peasants is far lower than that of city and town residents. A survey conducted by the Peasant Family Farming Problems Unit of the State Council Agricultural Research Center showed 61.2 percent of the peasant households sampled in 1986 as having net earnings of less than 500 yuan. As these peasant households' earnings rise, and expenditures for housing claim a lower percentage of their expenditures for daily necessities, the trend in peasant grain consumption will be toward sustained rise all the way until 1995.

The conclusions derived from the foregoing analysis are that the turning point for incremental decrease in marginal demand for per capita grain consumption in China will be during the 1992 to 1995 time period. One matter that should not be overlooked is that there is a marked

1. Analysis of Grain Ration Consumption. From statistics provided by the State Statistical Bureau on grain consumption for urban residents having different levels of income, we have derived a conclusion that is not consistent with the general impression. For the 1,200 yuan and below income segment, grain consumption correlates directly to rise in earnings.

exclusivity between the conclusions reached by beginning with the earnings structure and grain consumption data arranged according to time sequence. In the "China Statistical Yearbook," city and town resident per capita grain consumption shows a decrease when calculated by the year. During the Sixth 5-Year Plan, staff member and worker household per capita grain consumption decreased from 145.44 kilograms per year in 1981 to 131.16 kilograms in 1985. When one procedure yields an increase and another procedure a decrease, which can be used as a basis? Our view is that the correct per capita annual grain consumption is 131.26 kilograms, i.e. 7 liang per day, which is markedly on the low side in terms of the current dietary level. As types of consumers, the residents of China are in process of going from the controlled consumption type to the consumption type. The reason for the slight rise rather than a decrease in the Engelhardt coefficient is this "type shift." Thus, the increase in grain consumption for this period makes sense. According to a Shanghai grain supply company survey of resident's consumption of grain quoted in "Comprehensive Study Report on the Development of Grain and Cash Crops in China," it is not until per capita consumption of meat, eggs, and fish reaches 60 kilograms that grain consumption begins to decline. The results of this survey pretty much square with the information contained in the above table.

2. Analysis of Indirect Consumption of Grain. Indirect consumption of grain in China is presently in a stage of fairly rapid growth. A cross section shows that during the Sixth 5-Year Plan period, low income households per capita income rose from 269.76 yuan to 437.40 yuan for a 62.1 percent increase. Per capita consumption of meat, eggs, and fish rose from 15.96 kilograms to 27.6 kilograms for a 72.93 percent rise in a 1 to 1 growth rate ratio. During the same period, per capita earnings of high income families rose from 703.08 yuan to 1139.40 yuan for a 62.1 percent rise. Consumption of meat, eggs, and fish rose from 39.3 kilograms to 51.24 kilograms for a 30.38 percent rise in a growth rate ratio of 1 to 0.5. Clearly, over the next 50 years, when the low and

medium income households that account for 80 percent of the country's total gradually attain the income level of the present high income households, the trend will be toward an increase in the level of indirect consumption.

The rise in indirect consumption in China is slower among the peasantry than among city and town residents. Between 1980 and 1983, peasant consumption of meat, eggs, and fish rose from 10.56 to 15.69 kilograms, an increase of about 1 kilogram per year. As peasant earnings increase the speed of increase in the level of indirect peasant consumption will reach that of city and town residents during the Sixth 5-Year Plan period.

1.6. During the next decade or more, population growth may increase demand for grain consumption. In 1986 China's birthrate was 20.7 per 1,000, showing that China had begun to enter a third high peak period for births. The population that was born between 1962 and 1975, a 14 year long second high peak period for births, will enter the period of marriage and child bearing during this time. The ability of the country to hold the population growth rate below 12 per 1,000 will be the key to insuring that the population does not go beyond 1.25 billion by the end of the present century. A fairly realistic forecast is that over the next decade or more, every effort will be made to maintain population growth at less than 14 per 1,000, and that total population will reach somewhere between 1.25 billion and 1.287 billion, a net increase of between 190 and 227 million. Population will then become the most direct factor in the steady rise in grain consumption, and this situation can be used to derive a series of other indirect consumption demands.

1.7. Inasmuch as the factors that bring about a rise in demand are difficult to control, even though we may adopt measures such as guided consumption, compulsory substitutions, and control of demand, this will be able to hold down only about one-fifth of the above normal growth. Grain consumption will still increase by 10 to 12 billion kilograms by the end of the present century, and even at the lowest limit the total demand for grain will reach approximately 540 billion kilograms. There is not much room for adjusting grain demand.

C. Grain Supply Forecast

1.8. If supply and demand are to be brought substantially into balance, annual increase in total supply can be no lower than 10 billion kilograms. However, there have been only three periods in China's history when the annual average increase in grain output exceeded this figure, namely during the revival period, the readjustment period, and the Sixth 5-Year Plan period. Each of these periods lasted for approximately 3 to 5 years and were characterized by uncommon increase. From 1952 through 1986, the ordinary speed of increase was 6.65 billion kilograms.

1.9. The best available study on increase in total supply is still the large cooperatively produced problem research report completed by the Chinese Academy of Agricultural Sciences in 1984 titled, "Study of Problems in the Development of China's Grain and Cash Crops." This study shows that, with effort, the area sown to grain in China can be stabilized at a maximum of between 1.65 and 1.7 billion mu. (This figure has been revised in light of a decrease during the past 5 years in the amount of cultivated land, reclamation plans, and the actual sowing of grain). A series of effective technical measures can produce yield increases of 5 kilograms per mu per year to reach 300 kilograms by the year 2000. (The original formulation called for between 275 and 300 kilograms, but readjustments have been made in view of the yields per mu that have been already attained.) Thus, for the next decade and more, there will be three annual average grain increase targets, namely 6.5 billion, 7.5 billion, and 8.5 billion kilograms. By the end of this century, gross output of grain will reach 484.5, 497.5 and 510 billion kilograms, a per capita output of 387.5, 398, and 408 kilograms. Speed of increase will be 1.62, 1.87, and 2.1 percent. This means that as a result of the too fast growth in demand, even if we attain the ideal production increase targets, advancing two steps, the shortfall between supply and demand will still widen to between 1.5 and 3.5 billion kilograms.

1.10. A grain shortage has already become a reality. The forecast outlook shows that the shortage is not a short term pressure. Since the base figures for increases in supply and demand differ (a difference of 20 billion kilograms in 1987), and since increase in supply is unlikely to exceed increase in demand to close the gap, the shortage will tend to get worse over time. What we will be facing then is a long-term shortage on a "historical scale."

D. Effects of Grain Shortage

1.11. An urgent grain shortage has already begun to exert tremendous pressure on development of the national economy and reform of the economic system. First of all, the unavailability of grain hampers development of the country's livestock raising industry. Markets have repeatedly experienced meat shortages, and food prices have risen too rapidly, causing social unrest. Second, the high pressure control of the area sown to grain has caused problems for readjustment of the internal structure of farming. Even during the Sixth 5-Year Plan, there was very little room for release of potential through structural readjustments. An "oar-like" situation occurred in readjustment of the grain and cash crop structure, one end moving ahead while the other moved backward. Third, the lack of grain for trade will attenuate the movement from agricultural to non-agricultural work, and the shift of the rural population into cities. On the basis of the increase in the amount of grain available for exchange in China, it is inadvisable for the country's city and town population to be more than 27 percent of total population by 1990 or more than 35 percent by

2000. If these limits are exceeded, the gap between supply and demand will become wider. Fourth, the shortfall between supply and demand has brought about a complete backtracking on the planned and rigid regulation of the country's rural villages, and has blocked reform of the commodity circulation system. The rise in the position of "strategic" materials such as grain, cotton, and hogs, the major staple commodities, has caused a "regression" in the change away from the centralized procurement system that was made several years ago for the purpose of making these products into commodities. They have become "sacrifices" to ameliorate short term supply pressure.

1.12. The challenge we face is a serious one. Failing to see this prospect, or failing to be sufficiently vigilant about this prospect can cause even greater losses. Remembering the rash conclusions reached in 1984 about a surplus of agricultural productivity, and the lessons of losses that followed from agricultural policies based on these conclusions makes us determined to avoid the recurrence of similar mistakes on this issue. The seriousness of the grain outlook impels us to active readjustment of outdated methods that are inconsistent with the shortage situation to make our policies more in keeping with reality, more active, and more imbued with predictability.

II. Evaluation of the "Two Track System"

2.1 An evaluation of the "two track system" has become the point of departure for different avenues of thinking about future readjustment of grain policies. Repudiation of the "two track system" began after 1985 in light of difficulties and risks after the "two track policy" had been instituted for a fairly long period of time. It was believed that the semi-open semi-closed markets, the half dead and half alive flow of goods, and the semi-recognized and semi-denied commodity nature of grain had to be changed. Support for the "two track system" focused on the significant progress that had resulted from the "two track system" and its transitional nature. It was believed that only by gradually developing market carriers of risk, and by reducing marketing measures would it be possible to complete the transition of the "two track system." These two views were associated with different levels of government, the former one prevailing most in executive branches of the government, and the latter one finding favor in the national policymaking level.

2.2. Very clearly, as a transitional form, the "two track system" is important in two ways. It is a form that repudiates centralized procurement and marketing, and partly recognizes the principle of exchange for equal value and that grain is a commodity, introduces a price mechanism, and allows a combination of multiple channels of flow. At the same time, however, it retains the

basic functions of the former procurement and marketing system, exercises control over quantities, repudiates exchange for equal value, retains administrative interference, and exercises a market monopoly and a monopoly by state owned businesses.

2.3. The basic intent envisioned by the "two track system" is to "stabilize one area and to enliven another area." Fixed procurement quantities are mostly for the purpose of insuring grain for state use. The surplus is placed under price guidance to make up for losses sustained by peasants and the state alike from exchanges of unequal value and to maintain a stimulus for grain production, the allocation of resources under regulation of market prices thereby benefiting grain production. Therefore, there has been a gradual use of "enlivening one area" to replace "killing one area" to bring about a transformation of the system.

2.4. However, the economic relationships that have actually evolved are far more complex than this formulation. The key to understanding the complexity of inherent relationships lies in the introduction into different procurement and marketing systems of two antithetical "separate entities." Though these two "separate entities" have an inherent economic rationale of their own; nevertheless, the think that has to be decided is whether the mutual effect between the two entities is "antithetical" or "compatible" Our view is that it is nonsensical to take antithesis and compatibility as the total substance of the relationship between the two entities. In the "two track system," optimum coordination and changes of function have extremely great relevance to "relaxation and "tightening" of the economic operating mechanism, and "balance" and "shortage" between supply and demand. A fairly loose external environment helps moderate the inherent contradictions in the "two track system," and the transition to a new system. However, when the national economy is in a critical situation and grain is in short supply, tremendous external pressures can intensify the "two track system's" inherent contradictions causing the procurement and marketing system to incline toward the old system that has been retained. Practice during the past 2 years has enabled us to deduce the process of intensification of antagonism and contradictions between the two "separate entities," as well as its actual effect on production and the circulation of commodities.

A. One proof of practice is that the contradictory nature of prices in the "two track system" plays a counterregulatory role on food production.

2.5. The purpose of introducing price signals is to reflect the grain supply and demand situation through market fluctuation signals, using the "enlivened" area to stimulate grain production. However, simultaneous with the inputting of price signals is the advent of a third kind of signal, namely the "price differential payments" signal between the market price and the procurement price.

"Price differential payments" equate to state tax collections in nature. In fact, they are grain commodity taxes that the state levies on grain. The role of "price differential payments" and the process whereby they regulate grain production is as follows:

(1) They provide the peasants with a clear cut standard for exchange of equal value, and they bring hidden grain commodity taxes out into the open.

(2) The amount of tax is not fixed. Since procurement prices are relatively stable, the amount of tax is primarily a function of the market. When market prices rise as supply tightens, the price differential widens and the tax increases. Conversely, when supply moderates, the market price softens, the price differential narrows, and the tax declines. This is an intervention process in which an abnormal application of the tax lever regulates production. It does not lead to a narrowing of the deviation in the balance between supply and demand for grain, but rather leads to a cumulative deviation. The greater the grain balance deviation, the stronger the stimulus to market prices, the higher the amount of taxes, the more the peasants feel they have gotten the worst of it, and the more their enthusiasm for growing grain is dampened. Conversely, when a positive deviation appears, the procurement price is about the same as, the same as, or greater than the market price, and the amount of tax declines to zero or even to a negative tax, increasing the stimulus to the peasants. This leads to a widening and an accumulation of positive deviation value.

(3) Since this is not economic action taken by the government with the clear intention of applying tax levies to regulate production, but rather is an automatic regulation exercised by increases and decreases in taxes brought about by rises and falls in market prices because of the correlation between supply and demand; consequently, we can term this economic process a reverse regulation of peasant economic actions by a reverse regulating mechanism produced by the inherently contradictory character of two track prices.

(4) The tax burden for grain and cash crops is, of course, extremely unequal. The existing standards for calculating taxes were set on the basis of the contrasting benefits derived from grain and cash crops during the 1950's. The grain tax accounts for as much as 80 percent of all farming taxes, amounting to approximately 3.5 billion yuan. Cash crop revenues come to only 800 million yuan, or 20 percent of all farming taxes. Were we to add the aforementioned "grain commodity tax," grain taxes would amount to more than 13.5 billion yuan. The obstacle to grain production that these seriously unequal taxes pose is tremendous.

(5) In addition, the grain and most cash crops belong to different pricing systems. These different mechanisms have led to price fluctuations. This has severed a sensible inherent relationship between cash crop prices and grain prices and made difficult the formation of equitable

comparative price relationships, which, even when built up with effort, were very quickly demolished. Official state financial grain price supports, and restrictions for the sake of protecting the interests of urban consumers have made the coordinated fluctuation of grain prices and cash crop prices impossible. Grain has remained at the "bottom of the price pot" all along, finding it difficult to escape. This has made us realize yet another predicament that grain faces in the "two track system," namely that price guidance brings about a deviation away from grain in the allocation of agricultural resources, while the better returns from cash crops as well as the tremendous tax preference they enjoy provide a circulating practical basis for grain production resources that under reverse control. This cannot help but intensify the inherent contradictions in the "two track system," with the result that the impetus generated by limited reform of grain prices can scarcely produce anticipated results because of the role of "internal consumption" and external pressures.

B. The second proof of practice is retreat of the "two price system" as a result of shortages.

2.6 Insuring stability of the national grain distribution system is a basic function that the "two track system" has retained from the traditional procurement and marketing system. Not only does it have obvious economic significance, but it holds important political and social significance as well. Therefore, bringing about balance between receipts and disbursements in the distribution of grain under state plan holds an absolutely unshakable position in the actual functioning of the "two track system." Changes in the external balance between grain supply and demand produces two possibilities in the evolution of distribution functions, control over quantity being paramount. These two possibilities are: First, as long as supply and demand are in balance, the state has no need to stress distribution functions further, and it can gradually reduce the percentage of "dead area," and press ahead smoothly with reform of the prevailing procurement and marketing system for a corresponding strengthening of the regulatory function of the market mechanism. Second, when shortages occur, the state distribution function increases, and ideas about multiple channels of market distribution give way to planned procurement, the "second round of centralized procurement" element in state procurement and marketing is increased, and the reform component envisioned for the "two track system" is further weakened. The coercive administrative power of state and local government these tendencies to hold a leading position in fact. Practice since 1984 has demonstrated that as a result of the pressure of grain shortages, the second possibility has become a reality in China's rural villages, the consequences of which are as follows:

(1) The "dead area" suppresses the "live area," and the "live" cannot live because of the need to stabilize the "dead." Grain markets must be open at times and closed

at others as a result of strict control of planned distribution, and the market mechanism's stimulating role toward grain production is in a state of atrophy.

(2) The general strengthening everywhere throughout the country of the state planned procurement system has further intensified imbalances between other channels and the principal one, and between other components and the state owned procurement and marketing organization, thereby emphasizing the monopoly position of the state owned grain sector. What with markets being open sometimes and closed at others, the isolation of one region from another being commonplace, the operation of "illegitimate" grain marketing organizations coming to a complete standstill, and numerous peasant farming organizations rising and perishing, the hoped for rebuilding of markets to carry risks during the transition of the "two track system" cannot be realized in the midst of its own inherent contradictions.

(3) The strengthening of the trend toward state distribution caused by shortages has placed many real obstacles in the way of the main line of thought for a further reform of the "two track system" powered by the use of the market system and the development of more market carriers of risk. This has not only delayed the expansion of grain production, thereby intensifying the grain shortage, but it has also created a "high voltage short circuit" in reform of grain circulation. At the same time, these two factors may conversely further strengthen the state's rigid planned grain procurement and marketing system. Such interaction produces a vicious cycle in which there is increasingly restricted room for maneuver, both grain production and reform of the procurement and marketing system sinking into an even worse predicament in consequence.

C. The third proof of practice is that institution of the "two track system" lacks an economic basis and organizational support.

2.7. As frictions between the peasants and the government increase, the state has no choice but to retreat once again to the use of administrative methods to regulate the peasants' economic activities in order to maintain adherence to state plan. The greatest difficulty in the functioning of the "two track system" in compulsory planned procurement is the lack of an economic basis. First of all, after the first reform completed the reconstruction of the microeconomic structure and set up peasant households organized to produce who were able to seek economic returns independently, this meant the administrative "umbilical cord" that tied the government to the peasants had been cut, and the government was able to depend only on contracts for commodities as a means of equalizing contacts. This caused the loss of an economic basis for compulsory procurement. Second, the process of dismantling the commune production organization system during rural reform also greatly weakened the power of the rural administrative system. Grassroots cadres lacked strong organizational backing

for fulfillment of contracted fixed procurement quotas. Finally, changes in the structure of rural benefits and the spelling out of exchange relationships brought to the surface the clashes between the peasants and the state resulting from exchange of unequal value. By way of insuring equilibrium between "equality" and "coercion," even though the state adopted methods of providing material goods in exchange for procurement; nevertheless, since benefits from such exchanges for procurement were slight, the procedures complicated, and stimulation of the peasants small, the state had no choice but to depend primarily on administrative methods to fulfill state fixed procurement quotas. As a result, despite state use of tremendous resources, when sifted into the hands of 180 million peasant households, they did little to evoke peasant enthusiasm for fulfillment of contracted fixed procurement. Second, the use of the amount of grain sold to the state as a determinant of the direction of flow of materials in exchange for procurement led to inequities in the allocation of industrial products that were included, with the result that development of both intermediate and low producing areas and potential grain producing areas was hurt. Third, rural products in very great demand were diverted from markets to materials distribution units, and bureaucratic organization distribution abuses flowed back to the rural villages. The general resurgence of the old system along with new policies further exacerbated peasant dissatisfaction and rural social conflicts and clashes. Fourth, contracted fixed procurement and the associated policies caused a sudden increase in the volume of work at the rural grassroots level, took a large amount of society's time, and caused a great increase in business costs. The price paid was huge for an economic policy from which returns were not high and that caused so many negative results.

D. The fourth proof of practice is that the state shouldered the entire risk in changing the path of the procurement and marketing system

2.8 From centralized procurement and centralized marketing to the "two track system," there was no lightening of the pressure of grain on the national economy. The state still shouldered the entire heavy burden of protecting both grain producers and grain consumers. Coordination of the interests of both producers and consumers was a key link in the "two track system," but it was national treasury support that determined the variables in the degree of coordination. The state treasury had become the bridge linking the changed rural village producers' interest structure and the as yet unchanged urban consumers' interest structure. This is to say that so long as the state continued unchanged its support for the existing interests of urban consumers, using any and all means to get hold of quantities of fixed procurement grain, while simultaneously having to subsidize the entire difference in the procurement and marketing inversion, the state shouldered all the risks in reform of the procurement and marketing system.

(1) In order to insure continued increase of grain production while not placing the grain peasants at too much risk, the state had no choice but to use government financial subsidies to support fixed procurement prices, which rose year by year. This put rises in grain peasant income on the basis of redistributions by the state treasury.

(2) In order to provide impetus to reform of the "two track system," the state had to resort to year by year rigid reductions in the amount of state fixed procurement. This unilateral reduction in procurement widened the gap between fixed procurement and regular marketing (a widening to 13.9 billion kilograms in 1986). This gap could be closed only by relying on subsidies to convert negotiated prices to parity prices. The reduced procurement figure became the function for predicting the extent of state financial support.

(3) Any attempt to reduce the financial subsidy would shake violently both producers and consumers. The excessive risk borne by producers had to lead to a shift of risks to production, thus causing the state to shoulder even larger economic risks. On the other hand, if urban consumers were unable to enjoy subsidies, they would become dissatisfied. The two formed a "chain" reaction and reverberation.

(4) The predicament of not daring to "offend" either party meant that the heavy burden of system conversion fell on the national treasury. In 1984, treasury subsidies, which had been reduced to 5 billion yuan, began a slow climb upward once again.

(5) Since the national treasury could not use large overdrafts to support constantly increasing demands made on the national treasury from all sides, and since the proportion of payments was also largely fixed, increase in grain subsidies was bound to lead to a reduction in state investment in agricultural capital construction. During the Sixth 5-Year Plan, grain subsidies increased from 8.016 billion yuan to 22.741 billion yuan (1984 figure), and investment in capital construction declined from 24.608 billion yuan in the Fifth 5-Year Plan period to 17.284 billion in the Sixth 5-Year Plan period.

2.9. From this we can see just what price the state paid in assuming all the risks in system conversion. The increase in income resulting from treasury support to grain peasants was mostly reconverted into payments of a non-productive nature. The subsidy payments to subsidized consumers reformed into new consumption pressures, which returned to the grain procurement and marketing system. The pressures fell on the state, and after one cycle, new and greater pressures were the "recompense" for the sustained pressures. The insistent demand for an expansion of state financial subsidies could be met only at the cost of controlling and reducing investment in the capital construction of agriculture. Agricultural reproduction did not receive corresponding compensation; its

reserve strength was seriously inadequate, and supply shortage pressures built up, bearing down on the state from yet another quarter. The country was under double pressures and in a double predicament.

2.10. The understanding that the foregoing analysis provides is that though the present "two track system" insures availability of grain to the state when there is pressure from a grain shortage, it will scarcely serve to complete a steady transition from centralized procurement and centralized marketing to the commercialization of grain under pressure from the shortage. It is able neither to coordinate and reconcile various contradictions and overcome numerous obstacles, nor to promote effectively reform of the procurement and marketing system. The antagonism and frictions of its inherent contradictions cause it to regress steadily. It lacks a foundation for stability, and it lacks the power to advance. Its real regression has already produced tremendous adverse effects that will be difficult to eradicate in improving the grain supply situation. It must be said that the present procurement and marketing system is unable to meet the needs of the state emergency operating mechanism and the long-term grain shortage.

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Hunan Grain Output

40060396c Changsha HUNAN RIBAO in Chinese
5 Jun 88 p 1

[Excerpt] Hunan Province has harvested 5,070,000 mu of spring grain, an increase of 870,000 mu over 1987, and gross output was 495,740,000 kilograms, an increase of 52,440,000 kilograms over 1987. The province has also harvested 7,420,000 mu of rape, an increase of 1,200,000 mu over 1987, and gross output of rapeseeds was 9,290,000 dan, an increase of 694,000 dan over 1987.

Comparison of Jiangsu, Guangdong Farm Exports

40060322 Beijing JINGJI GUANLI [ECONOMIC
MANAGEMENT] in Chinese No 4, 1988 pp 16-18

[Article by Wu Qun [0702 5028]: "Comparison Between the Export-Oriented Agriculture of Jiangsu and Guangdong Provinces"]

[Text] This article is trying to make a rough comparison between the export-oriented agricultural developments of Guangdong and Jiangsu provinces.

1. Comparison of Current Conditions

Guangdong is China's major production base for export commodities, of which farm products have always accounted for a large percentage. Guangdong Province had a head start in the development of export-oriented agriculture as compared to other provinces. According to statistics, in 1986 Guangdong Province exported \$1.439 billion of farm products and processed farm products,

accounting for 41 percent of the province's total export volume and an increase of 34.74 percent over the previous year. Due to its being adjacent to Hong Kong and Macao, large numbers of overseas Chinese, and the tradition of farm product exports formed over the years, Guangdong Province has established an initial pattern for the exports of farm products, namely "relying on Hong Kong and Macao markets as well as fresh and live commodities." Guangdong Province has established an initial form of farm product export commodity base which is centered on the Zhujiang delta, flanked by the coastal area around Shantou and Zhanjiang, and backed by a wide hilly area. In the past few years, Guangdong has also made great progress in import agriculture such as tourist and ornamental agriculture.

Jiangsu Province also appears to be heading into the stage where it cannot stop the rapid development of export-oriented agriculture. After opening to the outside world in 1986, Jiangsu province exported \$346 million of farm and sideline products, a 9 percent increase over 1985 and an all time high in the export and foreign exchange history of the province. In the past few years, foreign exchange-earning agriculture has begun to take shape especially in five cities—Suzhou, Wuxi, Changzhou, Lianyungang, and Nantong—which were designated as coastal economic open zones. In 1986 these five cities procured 760 million yuan of farm and sideline products for exports, an increase of 37.91 percent over 1985 and accounting for 47.87 percent of all farm and sideline products procured for exports in Jiangsu Province. This area has many advantages over the development of export-oriented agriculture such as superior natural conditions, an ideal location, a convenient transportation system, a fairly high level of industrial and agricultural production, and a definite basis for foreign trade.

But judging from the situation as a whole, the basic figure and proportion of foreign exchange earned from exports are small in Jiangsu Province and the degree of openness in the agriculture of open areas is still very low, which is very incompatible with the province's economic development and the requirements of opening to the outside world. In 1986 Jiangsu Province procured 1.578 billion yuan of farm and sideline products for exports, accounting for only 6.39 percent of the province's agricultural output value and 22.55 percent of the total amount of goods procured for exports in the province whereas Guangdong's farm products occupy a dominant position in Guangdong's exports. This difference is caused by many factors. Guangdong Province has many unique conditions that are favorable for changing its agriculture into an export-oriented trade. First of all, it has an ideal location. It is adjacent to Hong Kong and Macao, faces Japan and southeast Asia, and has direct accesses to all main continents. It is also the economic center of open zones in coastal plains with access to various provinces in the inland. Therefore it has both domestic and foreign markets. With a convenient transportation system, Guangdong has always been China's

foreign economic and trade center. In addition, it is now on the forefront of China's reform and opening up and has three economic zones that implement special policies. The large population of overseas Chinese and compatriots from Hong Kong and Macao helps Guangdong people better understand and reflect foreign economic and technological information and communicate in foreign economic contacts, exchanges and coordination. Second, it has an ideal climate. Located in tropical and subtropical areas, Guangdong Province has many farm, sideline and special local products that are famous both at home and abroad and some of its farm products are so superior that they become irreplaceable at home and abroad. In addition to the advantages in location and natural resources, the main reason for the rapid development of export-oriented agriculture in Guangdong Province is that in the past few years Guangdong Province has adopted a series of preferential policies and flexible measures, thus boosting the enthusiasm of large numbers of farmers.

2. Main Experience of Guangdong Province

The main forces behind the rapid growth of Guangdong's farm exports come from the following areas:

A. Guangdong Province has adopted special policies and flexible measures to encourage exports and support exports to earn foreign exchange. Allowing production and supply units to retain foreign exchange earnings and issue bonuses has aroused the enthusiasm of local authorities, export enterprises, and production units for the expansion of exports. For instance, in view of the realities of agricultural enterprises—large investments, long production cycles, and low profits—the Zhuhai special economic zone (SEZ) has adopted two preferential policies for developmental agriculture; one is before-tax loan payment and the other, the retention of total foreign exchange earnings, which has enabled enterprises to continue to grow on their own. The Zhuhai SEZ has also correctly implemented the profit-yielding policy to give joint venturers more tangible benefits from preferential treatment, thus attracting more investors. The practice of absorbing foreign investment and cooperating with other departments at home has given the Zhuhai SEZ an edge in production and competition and a boost in the development of export-oriented agriculture. Since the Third Plenum of the 11th Party Central Committee, Sino-foreign joint ventures, cooperative enterprises, compensation trade, processing of imported materials, imports of advanced technology and equipment have increased continuously in the agriculture of the Guangzhou area, and state-owned agriculture, in particular, has developed very fast. During the "Sixth 5-year Plan" period, the agricultural bank issued 20 equipment loans, totaling 25.13 million yuan, for the above-mentioned projects of state-owned agriculture. For instance, in the past few years the Baiyun Integrated Complex of Agriculture, Industry, and Commerce in Guangzhou, which has an outstanding economic performance, has cooperated with foreign investors, signed over 160 contracts on

the processing of imported materials, compensation trade, joint ventures, and cooperative management, opened up a dozen new fields, and exported over 70 products to many countries and areas in Europe, America, southeast Asia, Hong Kong, and Macao. This company earned a total of \$23.07 million in foreign exchange during the "Sixth 5-year Plan" period. It has always been an agricultural unit receiving major support from the agricultural bank. The cumulative value of loans for working funds and equipment received by this company during the "Sixth 5-year Plan" period were 337.32 million yuan and 1.548 million yuan respectively, which effectively supported the economic development of this company.

B. Guangdong Province has made initial readjustments of export management system, delegated some powers of export management to lower levels, and somewhat changed the situation of exports having been highly centralized and monopolized for many years. First, it has established a number of subsidiary trading companies and delegated management powers to their level. As of today, the business volume of these subsidiaries, which are responsible mainly for exports to Hong Kong and Macao, has amounted to 60 percent of the total business volume of the province. Since the delegation of management powers to lower levels, companies at the provincial level have focused on opening up overseas markets. Guangdong Province now has over 100 overseas organs. Second, it has established a group of export production networks to combine the economic interests of foreign trade, industry, and agriculture so that they can help and support each other. Over 100 export production networks showed marked results in 1986. Third, it has allowed export goods to be procured at market prices, expanded sources of goods and solved the problem that "domestic sales are more profitable than exports," thus increasing producers' initiative.

C. The construction of export, industrial, and agricultural production bases has shown some initial results. In the past few years, the Guangdong Provincial Government, which takes the construction of farm export production bases very seriously, has invested in a number of farm export production bases and established a leading group for exports, industry, and agriculture which has played a positive role in coordinating and guiding the construction of export, industrial, and agricultural production bases. As of today, Guangdong Province has completed the initial stage of four basic types of commodity export production bases: 1) the Zhujiang delta production base for a variety of high-quality farm products; 2) the Leizhou peninsula orange base and the Shantou mandarin orange base; 3) the seawater breeding base of the coastal area; and 4) the mountain export and production base for the native and special products and wild animals and plants of mountainous areas. According to incomplete statistics, Guangdong Province has established over 7,000 farm product commodity bases in a variety of types and sizes. These new agricultural commodity production bases have begun to develop in

the direction of combining production, circulation, science and technology, and information and of integrating agriculture, industry, and foreign trade. Started by state-owned or collective enterprises or other economic organizations, these production bases have been managed mainly by individual households. In light of domestic and foreign market demands, Guangdong Province has supplied peasants with improved strains and new technology, exercised decentralized management, offered centralized service, adopted batch process, and gradually specialized, serialized, and commercialized production, thus improving agricultural economic returns and promoting the exports of farm products.

3. Several Lessons

The further development of Jiangsu's export-oriented agriculture is now faced with many difficulties and contradictions. First, agricultural structure is incompatible with the demands of foreign markets, and the contradiction caused by the dispute over the use of land for grain or export products is very serious. Second, the current level of productive forces is incompatible with the development needs of export-oriented agriculture. Farm products are of a low quality and limited variety, and processing capacity is backward. In the commodity structure of farm exports, raw materials and semi-finished products, which are less competitive on the market, account for about 80 percent of all goods procured for exports. Third, export production networks are incompatible with the demand for establishing production bases to ensure a stable supply of goods. Real export commodity bases are still limited in number, and the agricultural production of numerous scattered households cannot possibly guarantee the supply of export goods. Fourth, foreign trade system is incompatible with the expansion of exports. Its defects stem from the practice of eating from the "same big pot" in the management system and mixing government functions with enterprise management, thus depriving enterprises of their vitality; the failure to link production to supply and marketing and stifled control; the practice of "sprinkling pepper" in assigning export quotas; and the irrational price parities between exports and domestic sales in the price system, which have resulted in the phenomenon that "domestic sales are more profitable than exports" and thus dampened the initiative for the development of export commodity production.

We believe that we can draw many helpful lessons from Guangdong's practice.

A. We must deepen ideological understanding and establish the ideology of developing export-oriented agriculture to give an impetus to agricultural modernization. Export-oriented agriculture is commercial agricultural economy aimed at international markets. It is the final stage of a transformation from the closed-door, self-sufficient agricultural economy to the commercial agricultural economy. It is also the target model sought after in the reform and opening of agricultural departments.

The coercive external force from the competition of international market has forced export-oriented agriculture to take the lead in realizing modernization in many areas. Therefore, developing export-oriented agriculture is of great significance in speeding up China's agricultural modernization. In the past 2 years, Guangdong Province has made rapid progress in developmental agriculture which started off at a higher level, has improved the strains of crops and the breeds of animals, and has shown good economic performance. This is inseparable from the promotion, organization, and construction of export production networks which should also be used as the basis for developing export-oriented agriculture in Jiangsu Province. The development of export-oriented agriculture will then bring about the modernization of agriculture throughout Jiangsu Province.

B. We should reform the foreign trade system to suit the needs of the development of export-oriented agriculture. First, we should change as soon as possible the previous system under which power was overcentralized at and above the provincial level and cities and counties did not have enough power to make quick, necessary decisions and delegate more decision-making power to counties and cities. Second, we should establish a production and management system that links foreign trade to industry and agriculture. Only by binding the interests of foreign trade, industry, and agriculture to "share both profits and risks" can we have the same goal, take a unified stand against foreign competitors, get rid of the shackles imposed by irrational rules and regulations that stunt the growth of export-oriented agriculture, show off the power of "combined forces," and arouse the initiative of all fields for exports and earning foreign exchange. In the building of production networks, foreign trade and processing departments should support raw material production. Third, we should adopt flexible policies and relax restrictions on export quota in regard to foreign trade administrative and management system. We should ensure only the best are selected in accordance with the law of commodity production and competition. Only by so doing can we integrate internal and external competition and accelerate the development of export-oriented agriculture.

C. We should adopt policies and measures to encourage exports to speed up the development of export-oriented agriculture. To expand the scale of farm exports under the situation in which domestic market is not satisfied and "domestic sales are more profitable than exports," we must adopt more favorable policies and measures to encourage exports and exercise regulation and control by means of various economic levers. First, we should adopt the policy of protective prices for export farm and sideline products. In general, export prices should not be lower than domestic prices. Second, we should set up special export credit system to give priority to offering loans for the construction of export bases and the processing of farm and sideline products. Third, we should set up security funds for the procurement of export goods to avoid the practice of forced procurement during international market fluctuation. Fourth, we should correctly handle the relations among the

state, local departments, and production units in the distribution of foreign exchange earnings to ensure that the retention of foreign exchange earnings plays its part in encouraging export production. A certain portion of the foreign exchange earnings retained by local departments should be at the disposal of agricultural department in order to facilitate the technological reform of agriculture. Fifth, we should encourage use of new technology, equipment, strains, and technique and screen requests for the imports of these farm-related items before giving them approval; exempt the imports of various capital goods from tariffs and consolidated industrial and commercial taxes; give steady and sufficient quotas for the production of export commodities; allow enterprises to use foreign exchange earnings, which they made as a result of their investment, to pay back their loans before delivering profits to the state or allow them to retain a larger share of profits to give them a certain amount of compensation; allow enterprises to use the profits earned from the development of new projects to pay back their loans before paying taxes; and offer a given period of tax exemption or reduction for production and processing projects that require a large amount of investment and a long period of time to recover investment. Sixth, we should adopt a policy to encourage the production of low-cost, high-quality goods for exports. Different tax rates should be worked out for different export goods in accordance with the amount of their foreign exchange earnings and economic returns. Indirect taxes on different links of processing should be returned to encourage multiple and precision processing.

D. We should fully utilize the advantage of natural resources to increase foreign exchange earnings through imports. As agriculture becomes export-oriented, great attention should be paid to improving the ecological environment. On the one hand, we should form an economic structure based on ecological agriculture to produce farm products that are free from pollution and contamination and make it possible to increase foreign exchange earnings through exports. On the other hand, we should develop agriculture for tourist, ornamental, and gardening purposes in light of the natural features of various suburbs and counties and create a tasteful ecological environment to attract tourists so as to increase foreign exchange earnings through imports. Counties and suburbs of coastal open zones in Jiangsu province each have their own scenic spots and special and famous local products; therefore, they are all able to build tourist sites with special local characteristics to develop tourist and ornamental agriculture. This is an important countermeasure that must not be ignored.

E. We should "absorb foreign investment and cooperate with other departments at home" to gradually increase the degree of openness in Jiangsu's agriculture. First, we should fully utilize the favorable conditions and special policies of the five open cities—Suzhou, Wuxi, Changzhou, Lianyungang, and Nantong—and other open areas to develop the horizontal links between Jiangsu and the wide inland area and carry out multifarious economic coordinations. This is very conducive to expanding the operation scale of export-oriented agriculture, speeding up the construction of farm export production bases, promoting the processing of farm products for exports,

readjusting rural export commodity structure, perfecting export production networks, and increasing economic returns on export-oriented agricultural production. Second, we should step up imports, accelerate the process of technological renovation and modernization of agriculture, use advanced foreign science and technology to change traditional agriculture and bring about a benign circle in which foreign exchange earnings from exports are used to import advanced foreign technology which will be assimilated and renovated for use in expanding the scale of exports which will then bring in greater amounts of foreign exchange earnings.

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Canadian Oro Rape Takes Root in Shanxi Province
41000020 Wuhan ZHONGGUO YOULIAO [OIL
CROPS OF CHINA] in Chinese
No 1, 20 Mar 88 pp 66-68

[Article by Han Xueru [7281 1331 0320], Liang Yigang [2733 0001 0474], and Meng Xian Yao [1322 2009 5069]:
"Survey of the Outlook for Oro Rape Development in Shanxi Province"]

[Abstract] In 1976, a wild cabbage type rape known as oro was first introduced into Shanxi Province from China and test planted in various places throughout the province. It flourished in Luliang and particularly in Yanbei, and by 1987 it was being grown on between 70,000 and 80,000 mu in these two prefectures. Oro's success in Shanxi is attributable in no small part to lack of competition from other crops in growing areas. It grows in wet, cool areas not favored by many other crops, and it also matures quickly, which means that it can be easily fitted into a two crop system and be grown in areas having a not very long frost-free season, including fairly high altitudes. Oro also has strong resistance to the physical rigors of its growing environment. Having a lower erucic acid content than any other rape grown in China is another source of its appeal.

This nearly three page article reports yields obtained in different soil, temperature, fertilizer, sunlight, and moisture conditions when planted at various times in Shanxi Province. It concludes with a discussion of prospects for increased growing of oro, which are good.

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Three 'Important Burning' Issues Concerning Young Intellectuals

40050283a Beijing GUANGMING RIBAO in Chinese
24 May 88 p 1

[Article by Qian Sanqiang [6929 0005 1730]: "Hope for More In-Depth Reports on Important Burning Issues"]

[Excerpts] Because of my fairly frequent contacts with intellectuals in work and my recent participation in the Seventh CPPCC National Committee, I have come to understand, or to take a personal interest in some issues of popular concern among the intellectuals. The prominent issues concern the treatment for young intellectuals, the policy on students abroad, and the self-innovation of large and middle-size enterprises. Can GUANGMING RIBAO carry more in-depth reports on these issues on the basis of investigations and study?

—The issue of treatment for young intellectuals. I single out young intellectuals, not because the issue concerning old and middle-age intellectuals has already been satisfactorily settled, but because of the fairly frequent reports on them recently. I have a nephew studying at Tianjin University for a MA degree with a monthly living expenditure of 65 yuan. He told me that for male students, this amount is just enough for food. The graduate students in Beijing University and Qinghua University have also talked about this problem, even though both of these universities have adopted the subsidy system. There are also the young doctors and nurses of hospitals and the teachers of secondary and elementary schools and kindergartens to be considered. It may not be practical for them to take side jobs to supplement their income, lest it may affect their own profession.

—The issue of self-innovation of large and middle-size enterprises. The central authorities have laid down the policy of "orientation" and "reliance" and this action is very correct. As I understand, "reliance" is somewhat behind "orientation." As I have heard from several leading comrades who had retired from the industrial departments, our large and middle-size enterprises are, from policy to organization, very weak in technical innovation. The leadership of some enterprises would rather let their technicians remain idle than put them to work on innovation projects which costs money. Getting external technical help is out of the question. The Chinese Academy of Sciences and the institutes of higher learning have become more active recently, and many research institutes and schools have their own development department, company, or enterprise to run. However, if we want to plunge the huge scientific and technological contingent into the battlefield of national economy, the problem of self-innovation among the large and middle-size enterprises must be solved. Without a combination of science, technology, and economics, our national prosperity will be far, far away.

—The issue of policy on students abroad. This is the issue to which young intellectuals are showing fairly great concern. We may say that some of those studying abroad have a low aptitude for research, but most of them are good and have the desire to learn more to serve the country. From the standpoint of national development, we must firmly adhere to an essentially rational and stable policy. Our policy on students abroad has not been very stable in the past several years. It was quickly decided on and quickly changed, resulting in chaos. While those who are still wondering whether they should go abroad have to rush through the out-going formalities anyway, those who think of returning cannot make up their minds. We must study the form of ideological work to be done among students abroad, because we can no longer use the same old way of persuasion. We must convince them in a logical way and appeal to their sense of responsibility. Some of those now studying in the United States have reported that they cannot read about the events inside China, or cannot do so in time. If they want to find out about them, they must go through foreign channels. These reports have certainly been exaggerated. Our consulates in foreign countries should strengthen their work in this respect.

9411

High Consumption, Influence on Others Among College Students

40050283b Beijing GUANGMING RIBAO in Chinese
24 May 88 p 2

[Letter from Yao Diansheng [1202 0368 4563] and Song Jiale [1345 1367 2867] of Administrative Bureau of State Education Commission]

[Excerpts] Editorial Department of GUANGMING RIBAO:

Public opinion now holds that high consumption, bragging about food and clothing, and trying to outshine others in luxury are "universal phenomena among the university students." This question is raised out of good intention. However, because the facts have been exaggerated, it is necessary to clarify the situation in order to set right the attitude toward this question.

An investigation conducted among 2,612 university students of different disciplines and different years in 72 institutes of higher learning of 23 provinces, autonomous regions, and municipalities directly under the central government shows the following. The average monthly living expenses of each of these students is 57.6 yuan, which included the expenses on food, school supplies, daily necessities, and other sundry items. Of these 2,612 students, 15.7 percent spent less than 50 yuan, 66.8 percent spent 50-70 yuan, 17.5 percent spent more than 70 yuan, and only 1.2 percent spent more than 100 yuan each month.

The average income for each member in the family of these 2,162 students was 35.4 yuan, and the average amount provided to the students by their families was 47.3 yuan. With the addition of student subsidies, scholarships, student loans, nonstaple food subsidies and so forth, the total average income of each student was 58.1 yuan. Their income and expenditures are generally balanced.

According to the "Communique of Statistics for 1987 Socio-Economic Development" released by the State Statistical Bureau, the per-capita monthly income of urban and rural residents available for living expenses was 46.2 yuan, or 76.3 yuan for urban residents and 38.6 yuan for peasants. According to our sampling investigation of 2,612 students, 59 percent of them had their families in cities with an average monthly living expenditure of 58 yuan, lower than the average figure available for living expenses among urban residents, while 41 percent had their families in the countryside with an average monthly living expenditure of 55.5 yuan, 40 percent higher than the peasant's income available for living expenses. From this, we can see that students with their families in the countryside are a heavy economic burden to their families.

According to an analysis of these figures, we believe that the financial assistance the students now have from their families can only help them maintain living expenses at a moderate level.

Let us take a look at the itemized monthly expenses. Their average monthly meal expenses was 35 yuan, 61 percent of their total expenses; their school supply expenses, 13 percent; their daily necessity expenses, 10 percent; and their miscellaneous expenses, 16 percent of the total. For most student, this level of consumption is reasonable. Because of the increase in nonstaple food prices, meal expenses at 35 yuan a month is at the middle level. The schools' catering charges are generally commensurate with this consumption level.

Some students do have high consumption. Of these students, 32, 1.2 percent of the total number, spent more than 100 yuan each month. A breakdown of their average monthly expenses of 110.6 yuan is as follows: food, 42.4 yuan, 47.3 percent; stationery, 12.7 percent; daily necessities, 13.3 percent; and miscellaneous expenses, 26.7 percent. What they got from their families averaged 84.3 yuan a month. We should point out that the expenses at this consumption level is one-third higher than their wages after graduation. A comparison of their expenses with those of other students under different items shows the following: meal expenses, 7.4 yuan higher; school supplies, 100 percent higher; daily necessity expenses, 150 percent higher; and miscellaneous expenses, more than 200 percent higher. The last two items are obviously irrational.

We believe that although these students are a very small proportion, their influence cannot be overlooked.

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**Inspection of 1987 Tax Revenue, Financial
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40050288b Beijing ZHONGHUA RENMIN
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[State Council Circular on Instituting an Inspection of
1987 Tax Revenue, Financial Affairs, and Commodity
Prices (23 September 1987), Reference "guofa" (1987)
No 89]

[Text] The inspection of 1986 tax revenue, financial
affairs, and commodity prices was very successful and
played a positive role in increasing state revenue, and in
enhancing the awareness of the legal system, of political
policies, and of the overall situation among our many
cadres, staff, and workers. However, lax financial and
economic discipline, failure to observe existing laws and
regulations, willful misappropriation of state revenue,
and infringement on the legitimate rights and interests of
enterprises are still conspicuous problems which cur-
rently obstruct reform and adversely affect economic
development. Some enterprises and units disregard
repeated injunctions by the central authorities, disregard
the interests of state and people, contravene state poli-
cies, resort to deception, evade taxes, impose unjustified
financial levies and pad costs, raise prices without
authority, charge unauthorized fees, drive up commod-
ity prices, disturb the market, excessively distribute
bonuses and materials, use public funds for excursions
and for feasting and presenting gifts, engage in extrava-
gant and wasteful spending, and do not stop despite
repeated admonitions. This situation gravely impedes
the steady increase in state revenue, adversely affects

expansion of the "double-increase and double-economy" movement, adversely affects the more intensive implementation and realization of our policies of reform, opening up, and invigorating the economy. For these reasons, the State Council has decided to continue in 1987 to conduct a further nationwide inspection of tax revenue, financial affairs, and commodity prices, and is herewith issuing the following circular concerning certain relevant questions:

1. Scope and content of the inspection. The present inspection of tax revenue, finance, and commodity prices shall mainly inspect various kinds of discipline violations committed by state enterprises, collective enterprises, public administrative agencies, and individual industrial and commercial enterprises during 1987, and those that have occurred in 1986 but have so far not yet been investigated or rectified. Particularly serious and odious cases which occurred before 1986 may also be inquired into. Cases of income derived from discipline violations, which had been disclosed in the 1986 investigations, but where accounts have not yet been adjusted, and money not yet turned over to the treasury, shall again be investigated, and pressure shall be exerted to have payments made to the treasury. The inspection shall be primarily concerned with: 1) Tax money and other income that should have been turned over to the state but which had been misappropriated, such money that had been intercepted and retained, tax money that was stolen or cases of tax evasions, money that was divided up in all kinds of illegal ways, also fraudulent reports of losses, which were made to defraud the state by obtaining unjustified subsidies; 2) Violations of state policy and of relevant regulations concerning commodity prices, cases of taking advantage of the "double track system" of prices, reckless and unauthorized increasing of prices and adding extra increases to prices, reckless accumulation of capital, reckless charging of fees, attempts to obtain illegal income, as well as forcing prices up and rushing to buy materials in short supply; 3) Excessive distribution of bonuses, subsidies, and materials, use of public funds for feasting and sending of gifts and for excursions, squandering and wasting state funds and materials, and wilful expansion of expenditure reserve funds. A further item to be investigated into is the imposition of unauthorized levies on enterprises.

2. Method and time of inspection. The present inspection of tax revenue, financial affairs, and commodity prices shall again combine widespread self-inspection with inspection of key points. All state enterprises, collective enterprises, public administrative agencies, and individual industrial and commercial enterprises shall perform earnest self-inspection, and of their own accord rectify still existing problems. They must not cover up relevant facts or fail to report them, and must strictly guard against perfunctory or superficial performance. Governments at all levels and departments of the central authorities shall organize efficient teams to undertake key point inspection in some of the enterprises or units, especially to earnestly and effectively

inspect key trades and key enterprises, and investigate key problems. For enterprises and industries under the central authorities, personnel of the relevant departments of the central authorities will dispatch personnel to perform inspections, but in addition the local authorities, under uniform direction of the people's governments in the provinces, autonomous regions, and centrally administered municipalities, will also dispatch personnel to perform inspections at key points. The present inspection of tax revenue, financial affairs, and commodity prices shall start in October and shall be completed before the Spring Festival. Specific steps and requirements regarding the inspection will be determined by the various regions and departments, according to the State Council's unified dispositions and in the light of the actual conditions of the particular localities.

3. Guiding ideology and principles of the inspection. The basic purpose for launching the present inspection of tax revenue, financial affairs, and commodity prices is to strictly enforce law and discipline, in order to create an excellent social and economic environment for the reform and for national construction. The inspection shall, on the one hand, conscientiously investigate and appropriately dispose of all violations of law and discipline, but, on the other hand, also pay attention to protect the enthusiasm for reform in the enterprises and units, and to the protection of their legitimate rights and interests. We should closely link the present inspection with the "double-increase and double-economy" movement which is just now being launched, link it closely with the deepening of reform and the perfection of the management mechanism in enterprises, link it closely with our fight against bureaucratism and for rectification of unhealthy tendencies, and link it closely with fulfilling this year's state budget plan. We should observe the principle of "being more lenient in inspecting others, stricter when being inspected, seeking truth from facts, and exercising leniency and strictness in appropriate measure," in our effective handling of the following problems:

A. If problems are disclosed by enterprises or units themselves, they may be exempted from fines and administrative sanctions, if in the meantime they have turned over to the treasury whatever income should have been turned over to the treasury, income that had been gained through a violation of discipline. As to violations of discipline that are found out by others, the entire gain from such violations of discipline shall be confiscated, and a fine and necessary administrative sanction shall be imposed, according to the "State Council's Provisional Rules on the Punishment of Violations of Financial Rules and Regulations" (Reference "guofa" (1987) No 58) and according to other relevant legal provisions. Violations of criminal law shall be referred to the judicial authorities for punishment according to law. Offenders who have repeatedly been found out and punished in the past, shall be dealt with most severely.

B. Enterprises that have instituted contract-management responsibility systems and leasing systems shall enjoy the

benefits from their management responsibility or leasing contracts signed between the state and the enterprise managers, and from any relevant legal provisions of the state. These benefits shall be protected and must not be infringed upon. Cases of violation of financial and economic discipline by enterprises with management responsibility or leasing contracts should equally be carefully investigated and appropriately dealt with.

C. State enterprises are the leading force in the national economy; they should play an exemplary role in exercising financial and economic discipline, stabilizing the economy, and restraining market prices. They must not be permitted to utilize their monopoly position for reckless price increases, for illegal business activities, for forcing prices up and rushing to buy materials in short supply. Any violation of discipline of this nature must be conscientiously sought out, resolutely rectified, and dealt with most severely.

D. All departments in charge of business operations, whatever their level, must set an example, consciously observe the state's financial and economic discipline, as this is of extreme importance to foster throughout the nation a social custom of observing discipline and law. During the present inspection, our inspection of these departments must be carried out effectively, and they must be spurred on to strengthen management, improve work, and themselves become exemplary models.

E. Financial and tax agencies are organs that enforce the laws which serve to uphold the state's financial and economic discipline. They must be strict with themselves, handle all matters impartially, and must of their own accord investigate and rectify whatever problems they find in their own organizations. For the inspection of key points in local income and expenditure at all levels, separate arrangements will be made by the Auditing Administration together with the Ministry of Supervision and the Ministry of Finance.

F. We shall resolutely protect law enforcement personnel as well as informants and those who expose wrongdoings. If personnel in the finance, tax, auditing, and commodity price departments are beaten or harmed, or if informants or persons who have exposed wrongdoings are attacked in revenge, the perpetrators shall be dealt with most severely, and no indulgence, leniency, permissiveness, and shielding must be allowed in this respect.

4. Organizational leadership of the inspection. People's governments of provinces, autonomous regions, and centrally administered municipalities, and all departments of the central authorities must strengthen their leadership in the inspection, designate one leading cadre of provincial or departmental rank to be in charge of this work, and must further replenish and strengthen the inspection leadership teams at all levels as well as their operational organization, to do a good job of sound and painstaking ideological mobilization and organization. Finance, tax, auditing, and commodity price personnel

at all levels, apart from effectively attending to their routine duties, must concentrate energy on participation in the present inspection. The planning commissions, economic commissions, banks, agencies in charge of industry and commerce, supervisory agencies, public security agencies at all levels, as well as departments in charge of business operations, must closely coordinate their work, mutually cooperate, actively support and participate in inspection work, also request procuratorates and law courts in all localities and discipline inspection agencies at all levels to energetically cooperate and render assistance.

The present tax revenue, financial affairs, and commodity price inspection is an important measure to give impetus to the launching and deep penetration of the "double-increase and double-economy" movement, and to ensure smooth progress in the reform of the economic system. The scope of inspection shall be somewhat broader than last year, demands shall be higher, and work more solidly grounded. We must ensure that the quantity and quality of personnel participating in the key point inspections shall not be lower than in 1986, and that the area covered by key inspections be not less than 40 percent. We must accomplish simultaneously inspection, as well as verifying facts, as well as dealing with cases, turning funds over to the treasury, rectifying and reforming, do well from start to finish, without leaving any unfinished business behind. The State Council will continue to transfer some cadres from the departments of the central authorities, organize them into work teams, and have them move to various places to assist and promote inspection work.

The State Council's Office for the Inspection of Tax Revenue, Financial Affairs, and Commodity Prices will be in charge of all routine work in connection with the nationwide tax revenue, financial affairs, and commodity price inspection. After inspection will be completed in all districts and in all departments, a summary report shall be submitted to the State Council, with copy to the State Council's Office for the Inspection of Tax Revenue, Financial Affairs, and Commodity Prices.

9808

Production Practice, Social Practice for College, University Students

40050288c Beijing ZHONGHUA RENMIN
GONGHEGUO GUOWUYUAN GONGBAO [PRC
STATE COUNCIL BULLETIN] in Chinese
No 24, 25 Oct 87 p 790

[State Council Circular Approving and Transmitting the Report of the State Education Commission on Improving and Strengthening Production Practice and Social Practice for College and University Students (19 September 1987) (Reference "guofa" (1987) No 88)]

[Text] The State Council agrees with the State Education Commission's "Report on Improving and Strengthening Production Practice and Social Practice for College and

University Students," herewith being transmitted for study and implementation in the light of actual conditions in your area and your department.

9808

State Education Commission Report on Production, Social Practice for Students
40050288d Beijing ZHONGHUA RENMIN
GONGHEGUO GUOWUYUAN GONGBAO [PRC
STATE COUNCIL BULLETIN] in Chinese
No 24, 25 Oct 87 pp 790-794

[State Education Commission Report on Improving and Strengthening Production Practice and Social Practice for College and University Students (1 July 1987)]

[Text] In recent years, colleges and universities had arranged for students to participate in production practice and social practice (including social practice for liberal arts students, clinical practice for medical students, teaching practice for teacher training students, hereafter "practice"). This practical training has achieved a certain success and provided us with some new experiences, in that it enhanced political awareness among the students, helped firm up the students' theoretical knowledge, and increased their ability for practical work.

However, because some reasons arising from awareness and objectively newly arisen conditions, new problems were met with in organizing college and university students participation in these practical training. Mainly: considerable difficulties in arranging for suitable training places, which fact imposed great restrictions on students practical training; no clear demands in practical training, ineffectual guiding control; weak ideological-political work, so that some students regarded practical training lightly, regarded inclination toward work lightly; some units asked for excessively high fees for practical training, so that schools had difficulty raising funds for training expenses. This had the effect of generally weakening the practical training, with very bad results. Many departments that were in need of personnel remarked that the graduates from colleges and universities recently were ideologically and professionally ill-suited to the requirements of socialist construction. Weaknesses in practical training was one of the main reasons that caused this situation, and this should have a high degree of attention in all places and among all departments concerned.

Education must serve the socialist construction, and socialist construction relies on education. Only by actively participating in social practice at the time of their studying science, general educational subjects and knowledge, young students will gain a better understanding of national affairs, and of the realities of socialist construction, reform and opening up, an understanding of the thoughts and feelings of the masses, and only then will they be able gradually be tempered into intellectuals

morally and mentally suited for the needs of the socialist construction. Inclusion of practical training of students into the educational plan is an important aspect of combining theory and practice, nurturing talents and instructional reform. Improving and strengthening practical training of students is a joint responsibility of schools, departments concerned, enterprises and industrial units. We must certainly recognize fully its importance in view of the great need to nurture talents suited for the needs of the socialist four modernization projects, and we must jointly undertake and make a success of this work.

The following ideas are set forth to achieve a real improvement and strengthening of practical training for students, and to realize the demands set forth in the "CPC Central Committee Resolution on Improving and Strengthening Ideological-Political Work Among College and University Students," namely to "actively guide students to participate in social practice" and "having central and local industrial, agricultural, and commercial departments, the PLA, and various relevant trades and units throughout society, consider supporting and accepting teachers and students as trainees to participate in social practice, professional training, and military training a social obligation that everyone has to fulfill, and actively provide the necessary facilities."

1. Clarification of Demands Made on Practical Training of College and University Students and on Units Accepting Them as Trainees

The general demand made on practical training of college and university students is that it should furnish an understanding of society, provide contacts with reality, and that it will enhance political-ideological awareness by an increased and strengthened mass viewpoint, work outlook, socialist dedication to work, and sense of responsibility. It should affirm whatever theories have been learned, and have the students gain initial practical knowledge in their specialties, also prove beneficial in nurturing ability for practical work and professional skills. Every type of college and university should include in their study plans an essentially needed number of classes and the necessary time for practical training, thereby truly guaranteeing the quality of practical training.

Units that accept student trainees should consider it a major responsibility of theirs to cooperate with the schools in making practical training a success. They should in all earnest take on the task of nurturing talents, and their success in doing this shall be an important factor in assessing a unit's educational work, just as the training of their own staff and workers. Units which show outstanding success should be commended and rewarded by the department in charge, and those who do poorly should be assisted in efforts to enhance their understanding of this work and to improve their performance.

2. Energetic Improvement of Administration, Guidance, and Coordination in Practical Training

For their practical training, college and university students should be sent to basic units in the first line of socialist construction. On the premise of guaranteeing the quality of training, and with due regard for the particular specializations and training requirements, places of training should be as far as possible in units belonging to the same system in the same district as their schools, according to the principle of training at the same locality or nearby. If training arrangements have to be "trans-system" and "trans-regional," the schools should in principle take up direct contacts with the units that accept the trainees. Efforts should be made to achieve a relative stability as to most of the units that accept trainees. To ensure availability of firmly established training bases over longer periods of time, schools and units willing to accept trainees may sign training contracts. As to finding training places for students of colleges and universities under the direct control of the State Education Commission, the relevant ministries, commissions, and local educational departments shall be responsible to negotiate and resolve these problems with due regard for the different specializations involved.

On having established close bonds between colleges and universities on the one side and units accepting trainees on the other side, the relevant ministries, commissions, and educational departments in provinces, autonomous regions, and centrally administered municipalities should take action in accordance with the State Council's "Provisional Rules Governing Responsibility for the Administration of Higher Education," namely accept responsibility for guidance, coordination, and utmost support and assistance to practical training at colleges and universities. For specializations in liberal arts, especially in such basic specializations as literature, history, philosophy, and archeology, there are greater difficulties in arranging practical training, and the relevant departments and units should show even greater solicitude and render even greater assistance.

Apart from their responsibility to arrange places for practical training, the departments in charge of higher education must also conduct necessary inspections to ensure quality of practical training, must promptly discover and resolve existing problems, and must arrange for the interchange of experiences. They must formulate specific rules and regulations for the execution of all dispositions and arrangements provided for in the practical training plans, while observing state policy and state regulations, duly integrated with actual conditions in the particular systems and regions concerned.

3. Efforts To Improve the Quality of Practical Training

Close cooperation is necessary between colleges and universities on the one side and the units accepting trainees on the other side. They must jointly arrange for effective practical training, giving due consideration to

the educational objectives and practical training needs of the students. They must continuously review experiences, reform content and methods, and improve quality. Colleges and universities must strengthen their guidance in practical training, carefully work out an outline, clearly determine the demand of practical training, and perfect all relevant instructional materials. They must select teachers who are well qualified to exercise guidance, strengthen their guidance and administration of practical training, and, with due regard for the specific conditions of the place of training, formulate practical training plans, make appropriate arrangements as to the content of practical training, and make select the best methods of practical training. They must effectively strengthen the ideological-political education during practical training, and maintain strict discipline during training. Corresponding policies and measures should be applied with regard to appointments, the work load, and in checking past records of teachers (especially young teachers), to fully arouse the enthusiasm of teachers for the successful accomplishment of practical training. They must stimulate and guide the students to learn from workers, from peasants, and from all personnel with practical experiences, to show increasing initiative in, and greater enthusiasm for, practical training, and to exert greater efforts to fulfill every demand that is made on them in practical training. In the areas of political-ideological studies and professional studies, strict demands must be made on the students, and they must be subjected to strict training and strict examinations. Those who fail the examination shall be dealt with according to the relevant regulations governing the enrollment of students at schools.

Units which accept trainees shall detach personnel with a good political ideology, persons who have abundant practical experiences, and who are of a certain professional level, to be in charge of guiding practical training. They should cooperate with the teachers to conduct ideological-political education and exercise guidance in professional training. They should perfect all relevant rules and regulations, promptly inspect the condition of practical training, resolve existing problems, and, furthermore, in cooperation with the schools jointly arrange examinations in a satisfactory manner. They must give utmost attention to the safety and good health of teachers and students during practical training, and must make every effort to improve their living, studying, labor protection, and hygienic conditions. Units that have undertaken a comparatively large task of practical training shall clearly designate a particular person or a relevant organization to administer this work.

4. Establish Good Bases for Practical Training

Some enterprises and industrial units that have accepted a comparatively larger number of college and university trainees may, if actual conditions at the unit permit, build training quarters to meet the needs. Favorably situated units may establish special bases for practical

training. In connection with the staff and workers training centers which they set up, they may include in their overall planning the establishment of similar bases for practical training. When examining and approving capital construction plans and arranging for investments in enterprises and industrial units, the relevant ministries, commissions, and local departments in charge should support the establishment of bases for practical training. Colleges and universities should in return give preferential assistance to units at whose places practical training bases have been set up by training qualified personnel, training personnel whose training has been entrusted to the schools by the said units, by undertaking scientific research, rendering consulting services, exchanging information, etc. The "three-in-one combination of instruction, scientific research, and production" is an excellent form for strengthening the lateral relation between schools and departments concerned, allowing each side to bring its particular superiority into play, and for promoting educational reform and progress in all undertakings, a form beneficial for the production of more talents and for the achievement of greater successes. Colleges and universities should energetically cooperate with units that have set up practical training bases in the establishment of "three-in-one combinations" in a variety of forms.

While good use is being made of practical training bases outside the schools, serious attention should also be paid to the establishment of training bases at the schools, such as school-run factories, school-run farms, and hospitals attached to colleges and universities (including regular training bases for fieldwork in such special areas as geology, geography, cartography, biology, archeology, etc.). For specialization in liberal arts, attempts could also be made, according to needs and feasibility, to operate certain training bases at the schools. The establishment of practical training bases inside the schools should be included in the capital construction plans of colleges and universities, to be examined and approved by the departments in charge of education. It is necessary to thoroughly resolve all problems that exist in the establishment of training bases at schools, such as regarding personnel complement, renovation of equipment, system of administration, production operations, etc. While the first concern must be to ensure accomplishment of the task of practical training and instruction, the relationship between training and instruction on the one side and economic achievements and social service on the other side must be accurately and effectively handled. Practical training bases at the schools are an important factor in linking practical training with instructions, but they must not completely replace practical training bases outside the schools (except in the case of hospitals attached to medical colleges), and we must make sure that every student in any specialized field has the opportunity to get into contact with society, to get closely involved in affairs at the basic level, and be tempered in the realities of the country around him.

5. Rational Solution for the Problem of Providing Funds for Practical Training Expenses

When drawing up their budgets for any particular year, colleges and universities must make arrangements for necessary funds to be expended on practical training. They should practice strict economy, insist on arranging training places at the places, or near the places where the schools are located, avoiding as much as possible lodging in hotels or guest houses. Linked with the content of practical training, certain suitable work or production tasks of the unit accepting the trainee may be undertaken so as to be favored with a reduction of or exemption from training charges. If the school's scientific research tasks and consultation tasks are carried out as part of the practical training, a portion of the school's scientific research funds to be used on the said tasks may be allocated to cover practical training expenses, but such funds must not be given to the trainees personally.

Any unit that has accepted trainees must start out from considering the high esteem of education and esteem for talents held by society as a whole, and must energetically support practical training of students from colleges and universities. It must strictly carry out the methods of expenditure for practical training prescribed by the state, must not use the training of students as a means of creating revenue or profit, must also not concoct pretexts for unjustified charges. While, as a principle, the state's relevant financial and economic regulations must not be violated, all ministries, commissions, and local educational departments may according to the particular conditions of the cases determine on specific methods to defray expenditure. Enterprises and industrial units in comparatively favorable circumstances, may, on the principle of voluntary action, give part of their own retained profits, or out of after-tax retained profits, some funds to support the practical training of students from colleges and universities. If teachers and students complete work or production tasks as part of their practical training, the unit that has accepted the trainees should reduce or fully remit training charges in proportion to the amount of work done, or pay the school a certain remuneration.

6. Efforts To Explore New Ways and New Methods for the Improvement of Practical Training

In recent years, new experiences have been accumulated in practical training activities at colleges and schools. For instance, as teachers and students integrated their practical training with such tasks as productive work, technological innovations, social investigations, and research on particular topics, they directly participated in socialist construction, while at the same time receiving ideological-political education, and thus being tempered and hardened in actual work. The schools and the units which had accepted trainees established regular cooperative relations and organized the "three-in-one combination of instruction, scientific research, and production," strengthening the lateral link between school

and society, and assisting the smooth progress of their practical training. Linkage of practical training with the advance allotment of graduates to the unit where they trained provided practical training of students with a stronger sense of purpose, and at the same time enhanced the sense of responsibility on the part of the unit that had accepted the trainees in question. All these experiences must be further summed up, elaborated, and gradually widely disseminated.

In order to conform to the new situation in economics, science and technology, and to the reform of the political structure, to fully arouse the enthusiasm of schools and of relevant units in society, to improve and strengthen practical training, achieve better results in practical training and a higher quality of talents nurtured in this process, it is necessary to actively reform content, method, and administrative work in connection with practical training, also to continuously explore new ways and new methods of practical training that promise greater effectiveness. Relevant departments and institutions of higher learning must strengthen their guidance in places where experiments are carried out in the reform of practical training. They should energetically support such activities, and promptly review and exchange experiences, in the great effort to create a new situation in practical training activities.

If no inconsistencies are found in the above report, please transmit it to all districts and all departments for implementation.

9808

Measures for Reception of Visiting Compatriots From Taiwan

40050288e Beijing ZHONGHUA RENMIN GONGHEGUO GUOWUYUAN GONGBAO [PRC STATE COUNCIL BULLETIN] in Chinese
No 24, 25 Oct 87 p 798

[Circular of the State Council General Office on Measures for the Reception of Taiwan Compatriots Visiting the Motherland on the Mainland for Family Reunions or as Tourists (16 October 1988)]

[Text] 1. The government of the motherland cordially welcomes our Taiwan compatriots who come to the mainland for family reunions or as tourists and guarantees their freedom to come and return.

2. Taiwan compatriots returning to the motherland on the mainland for family reunions or as tourists must apply for travel documents. Travel documents will be provided, in the territory of Hong Kong by the Hong Kong visa office of the Chinese Ministry of Foreign Affairs, or through the agency of the China Travel Service at Hong Kong; in the United States, Japan, and other countries by the local Chinese embassies or consulates.

3. On arrival of Taiwan compatriots on the mainland, on the strength of the above-mentioned travel document, customs will carry out a lenient examination of accompanying baggage and articles and if found to be for own use and of reasonable quantity will allow passage.

4. Compatriots from Taiwan shall enjoy the same treatment as mainland travelers regarding purchases of plane, train, or ship tickets and regarding lodgings and hotels.

5. All foreign exchange publicly displayed on the notice board of the State Foreign Exchange Control Bureau as freely exchangeable foreign exchange, may be remitted into China, carried into China, or exchanged by Taiwan compatriots without limits. The Bank of China and other banks as well as exchange stations at airports, hotels, and businesses approved by the State Foreign Exchange Control Bureau for dealing in foreign exchange are handling exchange business. At the said banks, Taiwan compatriots may establish deposit accounts in foreign currency, which will pay interest in foreign currency, with freedom to deposit or withdraw, and freedom to remit capital and interest out of China.

6. Taiwan compatriots may freely travel everywhere for observation and sightseeing in the same way as mainland compatriots.

7. Taiwan compatriots returning to the motherland on the mainland for family reunions or as tourists must observe all laws and regulations of the government of the motherland and respect the social customs of the localities concerned.

9808

Circular Regarding Urban, Rural Individual Enterprises

40050288f Beijing ZHONGHUA RENMIN GONGHEGUO GUOWUYUAN GONGBAO [PRC STATE COUNCIL BULLETIN] in Chinese
No 24, 25 Oct 87 p 805

[Circular of the State Industry and Commerce Administration on the Printing and Distribution of "Detailed Rules for the Implementation of the Provisional Regulations Governing Urban and Rural Individual Industrial and Commercial Enterprises" (5 September 1987) (Reference "gonshangge" (1987) No 231)]

[Text] Pursuant to Article 27 of the "Provisional Regulations Governing Urban and Rural Individual Industrial and Commercial Enterprises," this Administration has formulated "Detailed Rules for the Implementation of the Provisional Regulations Governing Urban and Rural Individual Industrial and Commercial Enterprises." They have now been printed and are issued to you for implementation. The registration and administrative control of partnerships by individuals and privately owned enterprises, prior to promulgation of relevant legal provisions, may be dealt with according to the

"Provisional Regulations Governing Urban and Rural Individual Industrial and Commercial Enterprises" and the present Detailed Rules. It is expected that you immediately report whenever problems are encountered in their implementation.

Attached: Detailed Rules for the Implementation of the Provisional Regulations Governing Urban and Rural Individual Industrial and Commercial Enterprises

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Detailed Rules for Governing Individual Enterprises

40050288g Beijing ZHONGHUA RENMIN
GONGHEGUO GUOWUYUAN GONGBAO [PRC
STATE COUNCIL BULLETIN] in Chinese
No 24, 25 Oct 87 pp 805-810

[Detailed Rules for the Implementation of the Provisional Regulations Governing Urban and Rural Individual Industrial and Commercial Enterprises (promulgated 5 September 1987 by the State Industry and Commerce Administration)]

[Text] **Article 1.** The present Detailed Rules are formulated pursuant to Article 27 of the "Provisional Regulations Governing Urban and Rural Individual Industrial and Commercial Entrepreneurs" (hereafter "Regulations").

Article 2. According to Articles 2, 3, and 7 of the "Regulations," any person applying to engage in industrial or commercial business operations must apply with his household registration certificate to the industry and commerce administration office at the place of his household registration. If found conforming to registration requirements, the application shall be entered in the register of applications.

The form of the register of applications will be uniformly determined by the State Industry and Commerce Administration.

Article 3. In one of the following cases, the applicant shall provide further relevant certification in addition to his household registration certificate:

A. An applicant intending to engage in the transportation of goods by motor vehicle or ship shall produce his car or ship license, his operator's license, and insurance documents;

B. An applicant intending to engage in catering services or processing and sale of foodstuffs must produce the licence issued by the foodstuff sanitation supervisory agency;

C. An applicant intending to engage in exploitation of natural resources, engineering design, renovation of buildings, manufacture and repair of simple measuring instruments, sale of medicine, or sale of tobacco must produce permits from the relevant departments or certificates of qualification;

D. An applicant intending to engage in operating an inn, carving seals, commission sales, or printing shall produce a certificate of approval from the public security agency at the place of his residence.

Anyone who engages a helper or takes in an apprentice must, furthermore, submit copies of the agreement signed with the helper or apprentice. If the intended work entails health and life hazards, evidence of insurance shall also be provided.

Article 4. In individual operations, the operator himself must be the applicant; in family operations, the family member who directs operations shall be the applicant.

Article 5. As to categories of trade listed in Article 3 of the "Regulations":

Industry, handicraft industry refers to the exploitation of natural resources, the production, manufacture, and processing of commodities, mining of mineral products, and the repair of production equipment and tools;

Building trade refers to civil engineering constructions, installation of equipment, architectural design, and repair of houses;

Transport and communications trade refers to transporting, loading, unloading, and moving of goods and passengers on roads and waterways;

Commerce refers to the buying and selling of commodities, transporting goods for sale, and their storage;

Catering services refers to operating restaurants, eating houses, canteens, cold drink shops, wine shops, tea houses, and noodle shops;

Service trade refers to operating barber shops, photo shops, bath houses, laundry and dyeing shops, inns, carving of seals, operating sports and recreational places, news broadcasting, scientific and technological interchanges, and consultation services;

Repair trade refers to engaging in the repair of clocks and watches, bicycles, sewing machines, radio receivers, television sets, and of all metalware and other sundry articles.

"Other trades" refers to any other kind of trade which state law and state policy allows individual industrial and commercial enterprises to engage in.

Article 6. As to main items of registration listed in Article 8 of the "Regulations":

Shop name refers to the name chosen by the individual industrial or commercial entrepreneur for his factory or shop. The name chosen must not be the same as registered by someone else in the same line of business within the same city or county. An individual industrial or commercial enterprise may prepare a seal showing his registered shop name, and should report this fact to the local industry and commerce administration office for their record. If no shop name is chosen, no entry need be made under this item;

Name of business operator refers to the name of the applicant mentioned in Article 2 of the present Detailed Rules, whose application has been examined and approved for registration according to law. In case of a family operation, the names of all family members who participate in the operation must be registered simultaneously;

Residence of the operator refers to the exact address of the applicant's census registration;

Number of persons operating the trade refers to the sum total of persons participating in business activities, including the operator, all family members participating in business activities, helpers, and apprentices;

Amount of capital refers to the registered capital at the start of the applicant's business operations;

Scope of business refers to the type of trade and the commodities which had been checked and approved for the operation. Any individual industrial or commercial enterprise may in addition to his main trade concurrently engage in other trades related to his main trade;

Mode of operation includes manufacturing articles by oneself and selling articles by oneself, commission buying and selling, processing of material taken in, retail selling, wholesale selling, combination of wholesale and retail selling, transportation of goods and passengers, storage and transportation for others, repair services, training services, and consultation services;

Place of business refers to the address, stating the city (prefecture), county, township (village), street, and house number where the factory, shop, or salesroom is located, or the place of the approved sales stand, or the sphere of mobile operations within the jurisdiction in question.

Article 7. On receipt of an application for permission to engage in individual industrial or commercial business operations, the industry and commerce administrative office shall, after examination of all relevant documents, approve entry into the register of applications, and send all relevant documents to the county industry and commerce administration office for examination. The county office of industry and commerce administration

shall examine the application, decide on it within 30 days of receipt of the application, and in case of approval issue a business license. In case registration is refused, the applicant shall be informed in writing.

Article 8. Business licenses for individual industrial or commercial enterprises shall be uniform throughout the country. The said enterprises may, according to the needs of the business, request copies of the business license from the industry and commerce administration office where they had originally been registered.

Business licenses and their copies are issued by the county office of industry and commerce administration.

Business licenses and their copies may serve as legal evidence for contracts, registration of trademarks, etc. The individual industrial or commercial enterprise may use them as credentials when engaging in goods and passenger transportation, transporting goods for sale, setting up a sales stall, and in mobile service activities.

Article 9. Any individual industrial or commercial enterprise may, on the strength of his business license, operate a business at another place, but before moving away must report this in writing to the industry and commerce administration office where he had been registered, for the record of that office. If the industry and commerce administration office at the new place agrees to accept him, they shall retain his business license and its copies and issue a temporary business license, also exercise stricter control.

Article 10. Any business license of an individual industrial or commercial enterprise and its copies recalled by an industry and commerce administration office according to Articles 10 and 11 of the "Regulations" shall be canceled.

Article 11. As required by Article 10 of the "Regulations", the industry and commerce administration office shall every year before the end of March inspect all business licenses of individual industrial and commercial enterprises which have been approved and registered.

For individual industrial and commercial enterprises who operate business at other places for over 1 year, the inspection shall be carried out by the industry and commerce administration office where the business operations takes place.

Article 12. If an individual industrial or commercial enterprise for some reason ceases business operations, he should report the fact to the industry and commerce administration office at the place where he had originally been registered, or at the place where he had operated his business, and should temporarily hand in his business license and copies of it, or the temporary business license; during the time of stoppage of business he is not to pay administrative fees.

Article 13. An individual industrial or commercial enterprise must report the loss of his business licence, its copies, or the temporary business licence, to the industry and commerce administration office which had originally registered him, or to the office at the place of his business operations, where the loss shall be registered. If no report is made, and the loss left unregistered, the business operator shall be fully responsible for any harmful consequences.

On having reported the loss of his business license, its copies, or the temporary business license, the individual industrial or commercial enterprise may apply for a replacement to the office which had originally registered the business.

Article 14. A business license, its copies, or a temporary business license must not be transferred, loaned, sold, leased, altered, or forged.

In case a business licence, its copies, or a temporary business license is transferred, loaned, sold, leased, or altered, illegal gains from such acts shall be confiscated and a fine of not less than 25 yuan and not more than 500 yuan shall be imposed. In serious cases, the business license, its copies, or the temporary business licence shall be canceled.

If a business is operated with a false business licence or a false copy of a business license, or false temporary business license, the false licenses and all illegal gains shall be confiscated, and a fine of not less than 50 yuan and not more than 1,000 yuan may be imposed. If the action constitutes a criminal offense, the case shall be handed over to the judicial authorities for criminal prosecution.

Article 15. According to the provisions of Articles 7 and 22 of the "Regulations," any business started arbitrarily without approval, registration, and issue of a business license by the industry and commerce administration office is an illegal business operation which must be closed down. Its illegal gains shall be confiscated, and a fine up to 500 yuan may be imposed.

Article 16. According to the provisions of Articles 9 and 22 of the "Regulations," the following respective penalties shall be imposed in case an individual industrial or commercial enterprises arbitrarily changes one of the main items of his registration:

1) Anyone who without authority changes the name of the business operator and the designated place of business and disregards orders of the supervisory agency should be given a warning or fined not less than 10 yuan and not more than 100 yuan;

2) Anyone who without authority changes the shop name shall be fined not less than 20 yuan and not more than 500 yuan;

3) Anyone who without authority changes the mode of business operation or exceeds the authorized scope of business shall have all illegal gains confiscated and may be fined not less than 20 yuan and not more than 500 yuan;

Anyone who deals in commodities which individual industrial or commercial enterprises are not permitted to handle shall have his illegal gains confiscated, and may be fined not less than 50 yuan and not more than 1,000 yuan. In serious cases, his business license, its copies, or his temporary business license shall be canceled.

Article 17. With reference to Articles 10 and 22 of the "Regulations," if an individual industrial or commercial enterprise without justifiable reason fails to complete license inspection procedure within the prescribed time, the industry and commerce administration office shall recall his business licenses and its copies.

If an individual industrial or commercial enterprise who operates his business away from his original place fails to complete license inspection procedure within the prescribed time, the industry and commerce administration office at the place of his business operations shall recall his business license and its copies, and shall return them to the county industry and commerce administration office where he had originally been registered.

Article 18. With reference to the provisions of Articles 19 and 22 of the "Regulations," individual industrial or commercial enterprises shall operate their business openly and honestly, and visibly display their prices in plain figures. Any individual industrial or commercial enterprise who engages in speculating and profiteering and who disturbs market control shall be dealt with according to laws, rules, and regulations regarding market control and suppression of speculation and profiteering.

Article 19. Any individual industrial or commercial enterprise who violates regulations of the taxation, public health, communications, urban construction, or public security departments is subject to measures prescribed by the regulations of the respective departments, and in addition shall have his business license recalled or canceled. The particular agency involved shall promptly turn the case over to the industry and commerce administration office to deal with.

Article 20. Imposition of a fine of over 200 yuan on an individual industrial or commercial enterprise or the cancellation of his business license must be approved by the chief of the county industry and commerce administration office.

An individual industrial or commercial enterprise whose business license has been canceled may after only 6 months apply again for registration and again engage in an individually operated business.

Article 21. With reference to the provisions of Article 13 of the "Regulations," on receipt of the business license, temporary business license, or receipt of an amended business license, the individual industrial or commercial enterprise concerned must pay a registration fee. When a business license is amended, a fee for change of registration must be paid.

Registration fees shall be collected from individual industrial or commercial enterprises according to the schedule in the "Provisional Regulations on Adjusting Standards for Enterprise Registration Fee Collections and Their Sphere of Application" promulgated by the Ministry of Finance and the State Industry and Commerce Administration on 16 February 1981.

Article 22. With reference to the provisions of Articles 13 and 22 of the "Regulations," individual industrial and commercial enterprises shall, according to regulations, pay administrative fees to their local industry and commerce administration offices.

The method of collecting administrative fees from individual industrial and commercial enterprises shall follow the "Provisional Regulations on the Receipt or Expenditure of Administrative Fees From Individual Industrial and Commercial Enterprises" issued by the State Industry and Commerce Administration and the Ministry of Finance on 25 June 1983.

For individual industrial and commercial enterprises operating businesses away from the place of original registration, the industry and commerce administration office at the place of business operations shall collect the administrative fee, and the office at the place of original registration shall not again collect administrative fee.

If an individual industrial or commercial enterprise fails to pay the administrative fee within the prescribed time limit, the industry and commerce administration office shall set a time limit for him to make up the due payment. If payment is still refused, a fine of once or twice the amount due as administrative fee may be imposed.

The industry and commerce administration office must not collect administrative fees in advance of due time from individual industrial or commercial enterprises.

Article 23. If in violation of the provisions of Articles 14 and 18 of the "Regulations," damage or loss has been caused and the legitimate rights of an individual industrial or commercial enterprise have been infringed upon by the collection of unauthorized fees from said enterprise, restitution must be provided by the unit or individual involved.

If the place of business approved for use by an individual industrial or commercial enterprise is to be torn down or removed, the unit that will have the use of the place shall according to regulations bear the costs of demolition and removal.

Article 24. With reference to the provisions of Article 25 of the "Regulations," if an individual industrial or commercial enterprise refuses to abide by a disposition of an industry and commerce administration office, which violates regulations, he may request a review by the higher ranking office in charge of industry and commerce.

Article 25. The present Detailed Rules shall come into force on the day of their promulgation.

9808

Circular on Quality Control of Imports
40050288h Beijing ZHONGHUA RENMIN
GONGHEGUO GUOWUYUAN GONGBAO [PRC
STATE COUNCIL BULLETIN] in Chinese
No 24, 25 Oct 87 pp 810-816

[Joint Circular of the State Import-Export Commodity Inspection Bureau, the State Economic Commission, the Ministry of Foreign Economic Relations and Trade, and the General Administration of Customs Promulgating "Measures for the Supervision and Control of Quality of Imported Commodities" (8 September 1987) (Reference (87) "guo jiandu lian" No 384)]

[Text] This is to issue the "Measures for the Supervision and Control of Quality of Imported Commodities" agreed upon by the State Import-Export Commodity Inspection Bureau, the State Economic Commission, the Ministry of Foreign Economic Relations and Trade, and the General Administration of Customs.

Supervision and control of the quality of imported commodities is highly important as it provides assurances for the state's socialist construction and protects the people's interests. We are asking all regions and all relevant departments to adopt effective measures, in accordance with the present Measures, to apply intensified efforts, cooperation, and coordination, in order to jointly make a success of the supervision and control of the quality of imported commodities.

Measures for the Supervision and Control of the Quality of Imported Commodities

Chapter 1. General Provisions

Article 1. The present Measures are formulated, pursuant to relevant state laws and regulations, in order to strengthen the supervision and control of the quality of imported commodities and to protect the interests of those connected with foreign trade as well as the interests of the consumers.

Article 2. Examination and approval of imports, signing of contracts, storage and transportation, inspection and acceptance, and claiming compensation from abroad, are all sectors which require intensified supervision and control of the quality of imported commodities (which includes commodities imported against foreign exchange or in any other form; thus also hereafter).

Article 3. The State Import-Export Commodity Inspection Bureau (hereafter "State Inspection Bureau") is solely responsible for the inspection, certification, and all work throughout the country in connection with the supervision and control of the quality of imported commodities.

All import-export commodity inspection bureaus in the various provinces, autonomous regions, and centrally administered municipalities and their branches (hereafter "commodity inspection agencies") are responsible for the inspection, certification, supervision, and control of the quality of imported commodities within their jurisdiction.

Inspection of imported medicines, sanitary inspection of foodstuffs, quarantine, inspection of animals and plants, calibrating of measuring instruments, inspection of the safety of boilers and pressure containers, also inspection and supervision of ships, is to be dealt with by the relevant supervisory or inspection agencies specified in relevant state regulations.

Chapter 2. Administration of Inspection and Supervision

Article 4. The state's inspection and supervision over the quality of imported commodities shall be carried out in a unified overall administration with divided responsibilities.

All imported commodities must undergo inspection within prescribed time limits, and before being inspected, they are not allowed to be installed and taken into operation, nor to be sold or used.

Article 5. On arrival of import commodities which are listed in the "Schedule of Commodities To Be Inspected by Commodity Inspection Agencies" (hereafter "the schedule"), or which according to the foreign trade contract must be certified by a commodity inspection agency, the recipient end-user unit (including the party who has placed the order for the goods; thus also hereafter), or the foreign trade transport unit (including agencies of foreign trade transport companies; thus also hereafter), must immediately apply for inspection by the commodity inspection agency at the port or station of arrival.

Article 6. For commodities which involve questions of safety, public health, environmental protection, labor protection, or quarantine (hereafter "safety"), the state is instituting an import commodity quality permit system. The "List of Commodities To Be Imported Under the

Quality Permit System" (hereafter "the list") will be published 6 months before its actual implementation by the State Commodity Inspection Bureau and the relevant departments in charge of supervision and inspection.

As to commodities on the "list," the commodity inspection agencies and the supervision and inspection organizations concerned shall carry out inspection of samples submitted or make an evaluation of usability in production according to state "safety" laws and standards. Those that pass inspection and evaluation shall be approved for the issue of "safety marking," or for registration. Commodities that do not qualify for "safety marking" or registration, are not permitted to be imported.

A factory or firm abroad which for the first time intends to import into China a commodity on the "list" must apply directly or through an agent to the State Commodity Inspection Bureau or its subordinate agencies, or to a supervision and inspection organization concerned for "safety marking" or registration, submit the commodity to examination, and pay expenses according to regulations.

On arrival of one of the commodities on the "list," obligatory inspection shall be carried out by a commodity inspection agency and by the supervision and inspection organization concerned. If the inspection finds the goods substandard, the supervisory unit concerned shall dispose of them in a harmless way, or order their return, or destroy them. If two lots are tested and found substandard, their "safety marking" should be canceled and registration invalidated. The approval or cancellation of "safety marking," and the approval or invalidation of registration shall be published by the State Commodity Inspection Bureau and the supervision and inspection organization concerned.

Article 7. The recipient end-user unit of import commodities other than those on the "schedule" and the "list", shall report their arrival to the local commodity inspection agency and himself carry out their inspection, or entrust a designated unit with the inspection. If the inspection finds the goods up to standards, the case shall be closed by informing the commodity inspection agency of the inspection result. If the inspection reveals some problem, the goods shall be left in custody where they are, and a renewed inspection shall be applied for to the commodity inspection agency.

Article 8. In case of certain important import commodities, advance inspection before loading, supervision of manufacture, or supervision of assembly, as prescribed in the contract, may be carried out in the country of origin, on the condition that it does not violate the laws of that country. However, inspection after arrival must be considered as decisive, and the inspection and acceptance after inspection in China and that done abroad should be made to fit together harmoniously.

Article 9. The state is instituting a commodity inspection marking system for import commodities. Factories or firms abroad, or their agents, may apply to the commodity inspection agencies for commodity inspection marking. Those that are tested or evaluated and found up to standards shall be permitted to attach a commodity inspection marking to that effect, and the commodity testing agencies will then at the time of importation only sample test or exempt these commodities from all testing, as conditions may warrant.

Article 10. The state is instituting a permit system for laboratories engaging in the examination and analysis of import-export commodities.

1. Laboratories in China and abroad (including inspection organizations) may apply to the State Commodity Inspection Bureau and its subordinate organizations for laboratory permits. Those approved for permits are under obligation to undertake designated testing and to furnish test results. Commodity inspection agencies shall supervise and check the testing of approved laboratories, and those that are found not qualified shall have their permits revoked.

If imported commodities are to be sold in China, the inspection agency used by the recipient must have obtained a permit from a commodity inspection agency.

2. If the issuance of a permit is controlled by another department, the case shall be handled according to relevant regulations.

Article 11. The State Commodity Inspection Bureau is responsible for obtaining information on the quality of import commodities. Units engaged in foreign trade, recipient end-user units of goods, the Chinese People's Insurance Company, the Bank of China, and departments in charge of foreign exchange control must promptly pass on to the commodity inspection agencies information on qualities of import commodities and grounds for compensation abroad. The sum total of this information shall be analyzed by the commodity inspection agencies and then promptly passed back as feedback to the relevant departments.

Relevant departments are instituting a quality tracking system for some important import commodities.

Article 12. All import commodities must be reported to the customs, which shall exercise supervision and control. In the case of import commodities listed in the "schedule," customs shall examine and approve them, on the strength of the seal of the commodity inspection agency stamped on the import goods report note.

When import commodities are inspected by customs, the recipient of the goods, or his agent, shall be present. After inspection, customs shall place its seal on the container in question or on the packing, and customs should keep good records of its activities for future reference.

Article 13. Industry and commerce administration agencies are responsible for supervising and controlling the area inside China in which the import commodities circulate. In one of the following cases, goods should not circulate in the domestic markets:

1. If they are commodities on the "list" but do not have "safety marking" or marks of registration;

2. If the commodities are not on the "list," but have no notices of acceptable quality made out by a commodity inspection agency or an inspection organization concerned, or are not marked as of acceptable quality by the factory of firm of origin and have no inspection result statement from the recipient end-user unit.

If import commodities are sold in the domestic market, the selling unit is responsible for their repair, exchange, and return.

Article 14. The state is instituting social supervision of the quality of imported commodities. Units that examine and approve imports, foreign trade units, storage and transportation units, end-user units, commodity inspection agencies, and supervising and inspecting organizations concerned should on a broad scale solicit opinions from users and consumers as regards quality of import commodities, and should accept the findings from enquiries.

Chapter 3. Responsibility for Quality

Article 15. The units examining and approving imports must follow a strict system of examining and approving imports. Import commodities with "safety" problems can only be approved for import if examination has found them conforming to China's "safety" laws and standards.

Article 16. Foreign trading units are responsible for signing contracts with foreign parties, and are responsible for the contracts they have signed. If they act as import agents, the end-user unit is responsible for the technical clauses if such had been acknowledged by the end-user unit.

Before signing an import contract, the foreign trading unit must clarify with the end-user unit the reputation and product quality of the foreign factory or firm. They must jointly study the import commodity contract, and its clauses on standards of inspection and with regard to guarantees of quality, selecting the best for importation.

Import commodity contracts (including contracts for the importations of old equipment) must conform with relevant Chinese legal provisions, and must have clear clauses regarding quality, packing, inspection, claims for compensation, quality guarantees, and arbitration. If necessary, the contract should stipulate that the seller should provide relevant technical data for inspection criteria and should set aside a certain portion of the purchase price to be paid only after the time limit for filing claims for compensation shall have expired. In all cases where technical standards exist, the goods should be ordered based on Chinese standards or international standards. If transactions are based on samples, the samples must be inspected and tested, and at the conclusion of the negotiations, signed and sealed by both parties or by the commodity inspection agency or designated commodity inspection organization.

After signing an import contract, the foreign trade unit should promptly familiarize itself thoroughly with the process on arrival of the import goods, and should, furthermore, provide the end-user unit with a copy of the import contract and relevant data on inspection criteria.

Article 17. Communication and traffic units must transport the import commodity to the delivery or storage point within the time limit prescribed in the transport contract. They must strictly execute the system of delivery, and in case of outwardly apparent damage, loss, or shortages of goods, keep good business records, also either stack up the goods or take them into safe custody. Foreign trade transport units at the place where the customs declaration is made must promptly send the recipient end-user unit of the goods and the commodity inspection agency a notification of arrival of the import commodity, and in case of damage or loss to goods, they shall also promptly apply for inspection by the commodity inspection agency.

Warehousing units must, according to relevant state regulations, effectively inspect the import commodity and take it into storage and custody, and later attend to the issue of the goods from their warehouses.

Article 18. The inventorying unit shall verify the quantity of every lot and batch of incoming cargo according to the shipping documents. They must be accurate in their figures, clearly record quantities of good and of defective cargo and, furthermore, provide the commodity inspection agency and other departments concerned with a inventory of damaged cargo and of shortages.

Article 19. The recipient end-user unit must make arrangements for inspection and acceptance of the goods, carry out the inspection process, and strictly and effectively perform the inspection and acceptance according to contract and relevant state regulations. If defects are found during the inspection, a reinspection by the commodity inspection agency and the inspection organization concerned should in general be applied for within 1 month before expiration of the time limit

(including any extension of the time limit; thus also hereafter) for claiming compensation. When application is made for inspection or for reinspection of import commodities, the commodity inspection agency and the inspection organization concerned shall promptly carry out the inspection and provide a certificate within 20 days from the day the request was received.

Article 20. It is the responsibility of the foreign trade unit and the foreign trade transport unit to pursue claims against foreign parties in connection with imported goods. If quality, weight, quantity, or packing of the imported goods do not conform to the foreign trade contract or do not conform to state "safety" regulations, or if damage or loss has been incurred in transit of a kind for which the foreign party is responsible, the foreign trade unit or the foreign trade transport unit shall present a claim to the foreign party within the time limit for claims, according to the following provisions:

1. If quality, specifications, and properties of import goods are found substandard for reasons of design, manufacture, or packing, or if the original packing was damaged or lost, or if there is a shortage in weight and quantity, a claim for compensation shall be submitted to the consignor (seller) by the foreign trade unit on the strength of the inspection certificate of the commodity inspection agency.

2. If a foreign shipping company is responsible for damage, loss, or shortage, a claim for compensation shall be presented to the shipping company by the foreign trade transport unit on the strength of the inspection certificate of the commodity inspection agency and the tally sheet signed by the shipping company;

In case the responsibility rests with a foreign railway, the foreign trade unit, foreign transport unit or the recipient end-user unit shall present the claim to the station of the railway administration where the goods arrived, and the claim should then be transmitted to the foreign party through the railway administration where the imports entered Chinese territory, on the strength of relevant documents, such as business records. Claims for compensation in respect of goods imported over international railway through transport lines shall also be submitted to the foreign party through the railway administration.

In case responsibility rests with a foreign airline or postal department, claim shall be presented to the foreign party through the Civil Aviation Administration or post office on the strength of an air accident certificate or post office certificate of damage or shortage and the inspection certificate of the commodity inspection agency.

3. If the import commodity has been insured against damage, loss, or shortage with a foreign insurance company, claims for compensation shall be presented to the foreign party by the foreign trade unit on the strength of the inspection certificate of the commodity inspection

agency. If the Chinese People's Insurance Company has insured or partially insured the goods, or acts as claims agent, the recipient end-user unit shall present its claim to the local office of the Chinese People's Insurance Company and at the same time transfer all its rights to the said insurance company.

Article 21. All localities and all departments, especially the departments in charge of units examining and approving imports, of units transacting foreign trade, of recipient end-user units, and of warehousing units, must exercise strict control over the quality of imported goods, must supervise and assist their subordinate units in establishing a system of responsibility and in implementing the various measures for quality control, and must periodically inspect the way quality control of import commodities is being carried out.

Article 22. If quality defects in import commodities have occurred which are the responsibility of some agency in China, every department involved shall bear responsibility to the extent that it has contributed to the deficiency.

1. If it is due to an error in contract obligations on the part of the foreign trade unit that inspection and acceptance has been made difficult, or if the right to claim compensation was lost because the claim was not presented in time, although the commodity inspection certificate was received within the time limit for claims, and an economic loss was caused, the foreign trade unit is responsible for compensating for the loss, and shall establish whoever is directly responsible for its occurrence.

2. If it is due to failure on the part of the a communications and transport unit that the import goods were not transported to their destination within the time stipulated in the transport contract, or that in transit damage, loss, or shortages have occurred, the communications and transport department shall be responsible to compensate for penalties that were imposed for delayed delivery, or for actual losses, according to the transport contract and relevant regulations, and shall, furthermore, establish whoever is directly responsible for the occurrence.

If damage, loss, or shortages are due to improper care by the warehousing unit, the said unit shall be responsible to pay compensation, and shall, furthermore, establish whoever is directly responsible for the occurrence.

If the foreign trade unit did not promptly notify the recipient end-user unit of the arrival of the goods, or did not ask at the port of entry for an inspection with regard to damage or loss of goods, and thereby caused economic loss by losing the right to claim compensation, the foreign trade unit shall be responsible to pay compensation, and shall, furthermore, establish whoever is directly responsible for the occurrence.

3. If it is due to a mistake on the part of the recipient end-user unit in the formulation of contract clauses or in the negotiations with the foreign party for compensation, and if due to failure to promptly inspect, failure to promptly ask the commodity inspection agency for inspection, or failure to promptly present to the foreign trade unit the commodity inspection certificate, that the right to claim compensation from abroad was lost, or that damage, loss, or shortages were caused by own improper transportation, care, or use, the recipient end-user unit itself should bear responsibility, and shall, furthermore, establish whoever is directly responsible for any of these occurrences.

4. If serious damage is caused by the ineffectual control and supervision by a department in charge of units who examine and approve imports, who transact foreign trade, recipient end-user units, or warehousing units, the responsibility of those directly responsible shall be established by the departments in charge.

5. If economic losses are incurred by problems in quality and loss of right to claim compensation due to a mistake, or delay in providing certificates, or mistakes in the certificate, by a commodity inspection agency or inspection organization concerned, the said agency or organization shall establish the responsibility of whoever is directly responsible for the occurrence.

Article 23. Any dispute in connection with claims for compensation by a party involved in the foreign trade transaction shall be dealt with according to the provisions of the "PRC Law on Economic Contracts With Foreign Parties." A dispute over responsibility for quality deficiencies between parties in China shall be dealt with according to the provisions of the "PRC Law on Economic Contracts."

Chapter 4. Rewards and Penalties

Article 24. The department in charge shall commend or grant an award to any unit or individual who has all along devoted serious attention to the quality of import commodities, earnestly and effectively performed all work in the various aspects of quality supervision and control, and whose achievements have been outstanding.

Article 25. In case of violation of the provisions of the present Measures in one of the following circumstances, the various departments in charge shall impose penalties within the sphere of their particular competencies and according to the relevant provisions of the state:

1. In case of unauthorized importation or sale of goods which lacked "safety marking," or of goods listed on the "list" but not registered;

2. In case of unauthorized sale of goods not listed on the "list," but not marked as up to standard quality, and without an inspection result certificate and notification of satisfactory inspection;

3. In case of unauthorized installation, taking into production, sale, or use of goods which by improper means had evaded quality inspection and supervision by commodity inspection agencies and by supervision and inspection organizations concerned;

4. In case serious losses are incurred by mishandling of tasks which resulted in the loss of the right to claim compensation from abroad;

5. In case of other violations of law.

Article 26. State functionaries who violate the provisions of these Measures and thereby commit criminal offences shall be punished according to criminal law.

Chapter 5. Supplementary Provisions

Article 27. The present Measures are subject to interpretation by the State Import-Export Commodity Inspection Bureau.

Article 28. The present Measures shall come into force on 1 October 1987.

9808

Dispute With U.S. Over Gold Sales

40060319 Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 21, 30 May 88 p 36

[Article by Hu Zhihua [5170 1807 5478]: "Taiwan-US Dispute Over Gold"]

[Text] Before the US Department of Commerce released the statistics of commodity trade for March, most economists had estimated that trade deficits may be anywhere between \$11 billion to about \$12 billion. But after the release of the figures, it looked like US trade deficits had been reduced, since they were only \$9.75 billion in March, a substantial decrease from \$13.83 billion in February and \$12.44 billion in January and the lowest monthly trade deficits ever since March of 1985.

Judged by the regions, US trade deficits did not change very much as far as major industrial countries such as Japan, Canada, and West Europe were concerned. But US trade deficits with Taiwan were down by over 60 percent from \$1.35 billion in February to only \$531.8 million in March.

It is undeniable that the 40 percent appreciation of Taiwan currency in early 1986 due to US pressure has slowed down the growth of Taiwan exports to the United States. And since Taiwan is gradually reducing tariff and relaxing import restrictions, the gross value of Taiwan imports from the United States has increased sharply. However, if we take a closer look at the account of imports, we will find out that the main imported commodity is gold. For instance, in March gold imports accounted for 20 percent of the value of all imports.

Data show that between October 1987 and March 1988, the "Central Bank" of Taiwan imported over \$2 billion worth of gold from the United States, bringing Taiwan's gold reserves to a record high—11.1 million ounces, worth about \$4.2 billion—while reducing Taiwan's currency reserves to \$74.8 billion, a \$1.9 billion decrease from February.

The motives of Taiwan's central bank in purchasing large amounts of gold from the United States are as follows: 1) Increasing imports from the United States to reduce trade surplus with the United States and ease the pressure caused by the appreciation of Taiwan currency. 2) Increasing the diversity of foreign exchange reserves. Since over 50 percent of Taiwan's foreign exchange reserves are kept in the form of currency, of which, about 80 percent are US dollars and the rest are West German marks and Japanese yen, the successive depreciation of US dollars has caused grave damage to Taiwan's foreign exchange reserves and brought great pressure and criticism on the central bank. Since nobody knows where the US dollar is going to, increasing gold reserves is, after all, a wise decision. 3) Meeting domestic demand for gold in Taiwan.

The US Treasury Department has put up strong resistance against Taiwan's buying large amounts of gold. According to a report of "Wall Street Journal, Asian Edition" on 22 April 1988, the United States criticized Taiwan for buying large amounts of gold in the United States and storing it within the territory of the United States, saying that it was a game of statistics played by the central bank and that it only indicated a change in the structure of the central bank's assets. US officials continued to say that the United States would have nothing to say if the gold Taiwan purchased from the United States were used in civilian business transactions or as jewelry, but since the central bank was the buyer, the gold was categorized as monetary gold and the deal did not really help balancing the trade imbalance between the two countries.

Taiwan newspapers and magazines refuted this, saying: Since gold is a common commodity, when Taiwan increased gold imports, it automatically reduced trade surplus. Besides, last year Japan also purchased gold from the United States to make commemorative coins for the Japanese emperor's birthday and its nature is not much different from Taiwan's current practice. The aim of US criticism is to force Taiwan currency to appreciate again. The United States should examine its own economic structure, increase productive forces, and make products more competitive to reduce trade deficits instead of blaming other countries and forcing them to submit by repeatedly threatening to retaliate. In response to this, the US side argued: Despite the fact that Taiwan authorities have repeatedly claimed that gold is only a common commodity which should be imported or exported freely, Taiwan has lifted restrictions on gold imports but still exercise strict control over gold exports; therefore, it is hard for us to believe that they really consider gold a common commodity. We hope that the Taiwan government will permit gold exports just as they relaxed foreign exchange control.

Judging by the unyielding attitude of both sides, this case of gold dispute probably will not be settled anytime soon. Whether or not Taiwan will continue to purchase US gold in the future to reduce the trade surplus depends on the following factors: 1) The degree of the US reaction to Taiwan. If US reactions are too strong, we believe that Taiwan will examine and reconsider the economic gains and losses resulting from the purchase of US gold, in order not to infuriate the US government. 2) Future trade performance between Taiwan and the United States. If the United States can increase commodity exports to Taiwan or if Taiwan can increase imports of US goods, the pressure caused by the appreciation of Taiwan currency will be lowered accordingly and Taiwan's central bank probably will reduce the purchase of US gold as reserves. 3) The speed of monetary reform in Taiwan. If Taiwan increases overseas investment and opens up its money market, its foreign exchange reserves will decrease and the central bank will probably reduce its gold purchases.

In conclusion, judging from the current situation, the US trade problem has not been solved fundamentally and trade deficits are still very serious while Taiwan's monetary reform, which has made faster progress than before, still requires a considerable period of time to complete. If the pressure imposed by the United States is not too unbearable, Taiwan's central bank will in the foreseeable future continue to increase its gold purchase from the United States to reduce short-term trade surpluses and cool down the pressure caused by the appreciation of Taiwan currency.

12302

Criticism of 'Dual Recognition'

40050285 Hong Kong LIAOWANG [OUTLOOK] in Chinese No 22, 30 May 88 pp 17-18

[Article by Yi Hao [4135 3185]: "Can Taiwan's "Double Recognition" Be Practicable?"]

[Excerpt] In reply to a question in the "Legislative Yuan" from one of its "members" on 22 March, Wei Yung [7614 6978], Chairman of the Research Association of the Executive Yuan, proposed that Taiwan should accept the "Dual Recognition" concept in order to "break through its diplomatic isolation." His proposal immediately became the central topic of discussion in Taiwan's press and in certain overseas Chinese newspapers.

The so-called "dual recognition," as Wei put it, means that "diplomatic recognition" should be separated from "national unification," and that "while firmly adhering to the one-China" principle, we should learn from the experiences of the FRG and South Korea about the "strategy of adapting to the changes of objective environments" in order that Taiwan can take its place on the international stage as an independent political entity. When any country now having "diplomatic" relations with Taiwan switches its recognition to the PRC, Taiwan can still maintain diplomatic relations with that country. It may even attempt to "restore diplomatic relations" with those countries that have withdrawn their recognition of the Republic of China and established diplomatic relations with PRC. At the same time, the "dual membership" arrangement will enable Taiwan to return to the international organizations. On 26 April, Wei again positively declared that "dual recognition" was undeniably "one way to break through the diplomatic predicament" of Taiwan at present.

What deserves to be mentioned is that soon after Wei's statement, Professor Chiu Hong-ta [8002 1348 6671] of the University of Maryland in the United States also wrote an article to provide a legal basis for "dual recognition." He held that as long as Taiwan subjectively interprets "the simultaneous recognition of both PRC and Taiwan by any country not as an implication of "two Chinas," but rather as "an interim measure before China is truly unified, "two Chinas" do not legally exist. Many

leading newspapers, experts, and scholars in Taiwan have, in their commentaries, praised Wei's "dual recognition" as "one of those plans deserving positive consideration and adoption," and "a breakthrough." They also pointed out that "its greatest significance" lies in the change of Taiwan's former moralist diplomatic principle that "patriots and traitors cannot coexist," into a "realistic diplomatic principle." Some newspapers believed that the most important task now is to "let the international community know that Taiwan is a political entity, and regard the question of unification as a future historical problem." In the "Meeting to Study Foreign Policy" held by the Foreign Affairs Committee of the Legislative Yuan in mid-April, some scholars believed that "dual recognition" was Taiwan's "effective way to win international recognition," while others thought that it would be "difficult to yield real results." The views expressed at the meeting were so numerous that it was difficult to decide which was right.

Is "dual recognition" really practicable? Here are my own views. First, I believe that in discussing such a problem, we must face the realities; otherwise the conclusions would be meaningless.

The fact before us is that the Chinese people overthrew the old government of the so-called Republic of China and founded the PRC in 1949 after a long and brave struggle. By now, 135 countries in the world have recognized PRC as the sole legal country of China with Taiwan as an inseparable part of Chinese territory. It was on such a premise that these countries established diplomatic relations with China. In 1971, furthermore, the UN General Assembly adopted a resolution to expel Taiwan from China's seat which it had illegally occupied, and to return this seat to its legal occupant. Recently, Hsueh Yu-ch'i [5641 3022 7784], the Kuomintang's "veteran diplomat," published an article in CHUNG YANG JIH PAO, with a moving description, based on his personal experiences, of Taiwan's tragedy in this historical period. The article said: "The severance of diplomatic relations between us and our friendly countries was certainly unfortunate. But it could not be helped, because there was no alternative." The article also mentioned Taiwan's expulsion from the United Nations as an "unprecedented defeat," but added that these two events "had nothing to do with the question of our rigid foreign policy." Based on these experiences, he considered "dual recognition" "highly infeasible." Some scholars with keen political insight into Taiwan also pointed out: When most countries have recognized the PRC as the sole legal government of China and have established diplomatic relations with it, it would "probably be difficult" for them to establish diplomatic relations with Taiwan.

Second, I must point out that "dual recognition" is legally untenable. According to international law, the legal effect of recognizing a government is that in the eyes of the country at the giving end, the old regime

which has been overthrown in the country at the receiving end no longer legally exist. In other words, a country which has recognized the PRC has at the same time accepted the international obligation of no longer recognizing Taiwan. Recently, a responsible person of Taiwan's "Ministry of Foreign Affairs" repeatedly revealed that there was so far no sign of any desire to establish diplomatic relations with both the PRC and Taiwan at the same time. Doesn't this clearly show that more than 100 countries in the world are observing this international standard? In his desire for Taiwan to accept "dual recognition, Wei Yung actually wanted it to obtain the status of an entity under international law and then become a de facto political entity. Isn't this an open attempt for "two Chinas"? This is obviously impracticable. If this attempt is intended as a feeler for Communist China's attitude, the answer is also obvious.

This discussion inevitably turned people's attention to Taiwan's attitude and certain gestures of its delegation to the annual meeting of the Asian Development Bank. For more than a month, responsible persons of Taiwan's government have on the one hand stated that Wei's "dual recognition" concept "cannot represent the government's foreign policy until it has been sent to the "Executive Yuan" and approved; that "dual recognition" "is actually impracticable because there has been no such precedence in the world"; and that it is "a purely hypothetical question." On the other hand, Taiwan took great pains in instructing its delegation to resort to such petty tricks as "displaying the insignia of the "Republic of China." The Asian Development Bank's board of directors adopted a resolution to admit the PRC formally as a member, while Taiwan was required to use the new name of "Taipei of China." Today, fully 2 years later, Taiwan government is still continuing its "new experiment" in diplomacy. This inevitably raises the doubt that while some Taiwan leaders are verbally upholding the "one China" principle, they are attempting to have "two Chinas" in action.

As LIANHO PAO of 26 March editorialized, Taiwan's current "diplomatic activities are actually a form of underground and camouflaged tactics for 'dual recognition.'" To get out of its "diplomatic" isolation and to become an independent political entity in the international community, Taiwan began its activities for a similar goal long ago. For example, in some countries which have established diplomatic relations with the PRC, the names of its commercial organs of a civilian nature have been appended with the words "Republic of China"; and in the name of developing economic and trade relations, it tried to form official or semiofficial contacts with the countries already having diplomatic relations with the PRC.

Impact of NT Dollar Appreciation on Country's Industry

40060336 Taipei LIEN-HO PAO in Chinese
23 May 88 p 4

[Text] Statistics show that, during the first quarter, as the appreciation of the New Taiwan [NT] dollar and changes in domestic and external political and economic conditions began to affect Taiwan, local industries that are primarily oriented toward domestic markets managed to maintain stable growth, while most industries dependent on imports of raw materials or on exports showed declines in earnings.

Taiwan's economy registered a high rate of growth last year, but the rise of the NT dollar by more than 24 percent has shaken the island's industry and is beginning to force businesses to upgrade or convert to new lines of production.

Economic and trade officials believe that, as our economy is upgraded, domestic industry will not only have to deal with the pressure arising from the appreciation of the NT dollar, but must also cope with changes in economic and trade conditions abroad and, at home, with an increasingly restive labor force, a growing environmental protection movement and street demonstrations by political and interest groups, which developments are increasing the number of factors influencing industry and adversely affecting, to various degrees, business operations and investment.

Generally speaking, industries fare differently depending on whether their markets are domestic or external. In the cement industry, most companies have maintained steady growth due to an increase in domestic public investment, to a rise in demand, and to the fact that the industry is largely immune to exchange-rate changes and other such factors. For example, during the first quarter, Taiwan Cement Corporation and Asia Cement Corporation registered pretax net-earnings gains of 17.24 and 38.93 percent, respectively, over the same period last year.

The plastics industry, whose raw materials are imported, was affected by the rise in prices of those imports, the appreciation of the NT dollar, and changes in production in upstream petrochemical industries. For example, while Formosa Plastics Corporation and USI Far East Corporation posted first-quarter earnings gains of 6.5 and 30.4 percent, respectively, over last year, Nan Ya Plastics Corporation and China General Plastics Corporation showed declines of 10.4 and 15.6 percent.

Paper manufacturers, who import their raw materials and market their products domestically, all reported lower earnings. For example, Yuen Foong Yu Paper Manufacturing Co, Cheng Loong Co and Hwa Chen Pulp & Paper Corp posted declines of 26.3, 76.1 and 19.6 percent, respectively.

Profits also declined throughout the textile industry, which exports most of its products. Far Eastern Textiles Ltd, Warren Garment & Knitting Manufacturing Co and Chung Shing Textile Co posted declines of 9.28, 37.48 and 95.06 percent, which indicates that lower profits from foreign-exchange trading this year reduced overall earnings.

In the electronics industry, some firms posted excellent performance in reexport operations and thus boosted profits. For example, the first-quarter earnings of Tatung Co and Sampo Electric Manufacturing Co leaped by 400-plus and 58.2 percent, respectively, over the same

period in 1986. Meanwhile, Kuang Pao Electronics and Lien Hwa Electronics posted declines of 80.46 and 60.5 percent. This suggests that growth in entrepot trade can help industries increase profits.

Thus the extent of the impact of the business climate on domestic industry is becoming increasing clear, as are the adverse effects on export producers. Furthermore, while the large rise of the NT dollar last year enabled enterprises to make considerable money by trading in foreign currencies, the recent stabilization of the NT has reduced opportunity for such speculative activity, so firms will have to earn their profits through their normal business operations.

Changes in the First Quarter Net Pretax Earnings of Firms Listed on the Taiwan Stock Exchange (Unit: NT\$ 1 Million)

Firm	Q11987	Q11986	Change(%)
Taiwan Cement	479.631	409.113	17.24
Asia Cement	623.346	451.409	38.09
Formosa Plastics	959.008	900.418	6.51
Nan Ya	988.084	1,102.858	-10.41
China General Plastics	125.885	149.209	-15.63
Yuen Foong Yu	208.307	282.889	-26.36
Hwa Chen	274.119	341.240	-19.67
Lien Hwa	63.455	160.914	-60.56
Tong-Yuan Electric and Machinery Co	200.366	277.082	-27.69
Tatung	363.036	75.199	382.76
Sampo	190.047	120.669	58.28
Fu Mao	298.587	475.683	-37.23
Chung Shing	10.170[sic]	205.741	-95.05
Far Eastern Textiles	702.739	774.546	-9.28
Warren	251.845	402.819	-37.48

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